

# SOLVENCY AND FINANCIAL CONDITION REPORT SFCR

Cardif Lux Vie

31 December 2022



**CARDIF LUX VIE**  
GROUPE BNP PARIBAS

The insurer  
for a  
changing  
world

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## Introduction

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This Solvency and Financial Condition Report concerns the company Cardif Lux Vie. It is based on the results of the assessment under Solvency II standards for fiscal year 2022, as presented on 28 March 2023 by the Audit & Risks Committee to the Board of Directors. The report was approved by the Audit & Risks Committee at its meeting on 28 March 2023.

The requirements for the Solvency and Financial Condition Report are laid down in Articles 51 to 56 of the Solvency II Directive and its Delegated Acts, adopted on 10 October 2014 by the European Commission. They provide details on the content, structure and disclosure of reports:

Articles 290 to 292:	Definition of the structure, materiality and summary
Article 293:	Business and performance
Article 294:	System of governance
Article 295:	Risk profile
Article 296:	Valuation for solvency purposes
Article 297:	Capital management

The report contains descriptive information in quantitative and qualitative form, supplemented, where appropriate, with quantitative declaration templates.

Unless stated otherwise, all data presented in this report are in millions of euros.

### WARNING

The figures in this report have not been audited.

The report may contain forecasts based on opinions and current assumptions about future events. The value of technical provisions is based on long-term cash flow projections and is based on the use of assumptions and models. This exercise also involves judgement and use of the information available on the calculation date. The value of technical provisions therefore involves a degree of uncertainty.

No guarantee can be given as to the realisation in practice of these forecasts, which are subject to inherent risks, uncertainties and assumptions with regard to Cardif Lux Vie and its investments, as well as to any changes in economic conditions and the general financial situation.



**Alexander DRAZNIEKS**

Chief Executive Officer

## Value creation overview

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### Business and performance

Cardif Lux Vie is a Luxembourg insurance company positioned among the major players in the market. With strong links to its clients, partners and employees, the Company delivers high-quality solutions and services in the interests of sustainable, responsible growth.

Backed by a solid shareholding structure (BNP Paribas Cardif and BGL BNP Paribas), it successfully combines local know-how and international expertise to meet the specific needs of its clients and partners.

Cardif Lux Vie collected 2.7 billion in premiums, 67% of which were in unit-linked products. Net inflows were - 353 million euros, due in particular to redemptions from the General Fund in Italy in an unfavourable interest rate environment at the end of the year.

Cardif Lux Vie's Wealth Management business generated 2.6 billion euros in turnover, 69% of which in units of account.

This year was characterised by a commercial event, supported by concrete actions in terms of digitalization with the delivery of 100% dematerialized processes in the e-Club platform for France and Belgium. Business was also driven by the development of our unit-linked products: expansion of the distribution of the Specialized Insurance Fund, facilitation of the integration of private equity funds into our offer (investment strategy of the Dedicated Internal Funds, but also creation of thematic Collective Internal Funds and integration of numerous external funds into our catalogues). Lastly, we have offered our partners personalized support, including the acceleration of the provision of appendices to dedicated internal funds and the establishment of regular operational monitoring committees. This forms the basis of what is a solid and ambitious development strategy for the years ahead.

Activity in the Luxembourg resident market amounted to 85 million euros (Wealth Management and Local Market), and inflows for retail clients in Luxembourg and the Greater Region amounted to 83.5 million euros (up by more than 12.3% compared with 2021).

Inflow for Investment Savings was up by 34%, while Protection insurance stood at 12 million (impacted by the sharp decline in the sale of mortgages following the rise in interest rates) and Programmed Savings remained stable (-2% compared with last year). As regards distribution, business generated via brokerage networks grew by 25% while collaboration with the BGL BNP Paribas network was further strengthened. The continued digitalization of our platform, and in particular the delivery of a fully digitalized Outstanding Balance Insurance process, should enable the Company to continue to gain market share and develop new partnership opportunities.

The year was marked by the awarding of the LuxFLAG ESG Insurance Product label for the OptiPension+ and MyPension+ policies on 29/09/2022. Cardif Lux Vie is the first company to obtain this label for a pension savings product (article 111bis LIR) on the local market.

Cardif Lux Vie recorded net income after tax of 47.1 million euros, down 5.8% compared to 2021 in a complex geopolitical and economic environment.

The rate of return on assets came to 2.15% in 2022, down by 9 basis points compared with 2021. This change is due to the 6 bps decrease in the exceptional return, which includes the results of asset disposals and foreign exchange, which had been particularly high in 2021. The recurring return from dividends, coupons and the amortisation of premiums/discounts was down by 3 bps.

## System of governance

Cardif Lux Vie is a public limited company with a Board of Directors and General Management.

The Board of Directors of the Company has three special committees: the Audit & Risks Committee, the ALM and Investments Committee, and the Remuneration and Nomination Committee.

The Solvency II rules, as applied within Cardif Lux Vie, define the following four key functions:

- Risk Management function;
- Compliance function;
- Audit function;
- Actuarial function.

The independence of key functions is guaranteed by a right of access to Board members for the heads of key functions in the event of a major risk or serious malfunction likely to compromise the accountability of directors or the sound management of the Company.

## Risk profile

The Solvency Capital Requirement (SCR) is down by 10% compared to 31 December 2021, explained by decreases in the SCR for market and operational risks, despite the increase in the SCR for underwriting risk.

Market risk SCR stood at 470 million at 31 December 2022, down 19% compared to 2021, before diversification, and representing 75% of the overall SCR. It consists of six risk modules, most notably equity and spread risk.

The SCR for underwriting risk stood at €284 million at 31 December 2022, an increase of 21% compared with 31 December 2021, due mainly to the rise in future profits in an economic environment with more favourable interest rates (increase in risk of large-scale redemptions associated with higher future profits).

## Valuation for solvency purposes

Cardif Lux Vie's statutory financial statements are prepared in accordance with Luxembourg standards. Cardif Lux Vie prepares its balance sheet under Solvency II in accordance with Article 75 of the Solvency II Directive, i.e. principally at market value.

## Capital management

Cardif Lux Vie's Capital Management Policy aims to comply with regulatory solvency requirements and insurance coverage requirements, to provide at least 100% coverage of the SCR defined in the ORSA assessment, and to structure equity by seeking the best balance between share capital, subordinated debt and other equity elements, in compliance with the limits and levels defined by the regulations.

At 31 December 2022, the amount of own funds eligible for the SCR totalled €1093 million. The amount of own funds eligible for the Minimum Capital Requirement (MCR) came to €838 million.

The SCR was €623 million and the MCR was €281 million at 31 December 2022.

The SCR and MCR coverage ratios were 176% and 299%, respectively.

## A. Business and performance

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### A.1 Business and external environment

Cardif Lux Vie S.A. (the “Company”) is a public limited company constituted in accordance with Luxembourg law on 5 April 1994. The Company is involved in all insurance, co-insurance and re-insurance activities in the life assurance sector.

The Company is registered in Section B of the Luxembourg Companies Register under number 47.240.

Cardif Lux Vie is a market-leading Luxembourg life insurance company. With strong links to its clients, partners and employees, the Company delivers high-quality solutions and services in the interests of sustainable, responsible growth.

- In Luxembourg and the Greater Luxembourg Region, Cardif Lux Vie provides bancassurance and brokerage networks with life insurance solutions for savings, pensions and protection that offer high added value for private individuals and professionals.
- For high net worth clients active internationally, the Company offers sustainable, bespoke insurance solutions distributed through an open architecture via an extensive network of first-class partners. Underpinned by a comprehensive range of wealth structuring tools, planning solutions from Cardif Lux Vie lend long-term support to the company’s clients and partners.

#### A.1.a High-quality shareholders

Cardif Lux Vie has a solid shareholder base with strong local and international links.

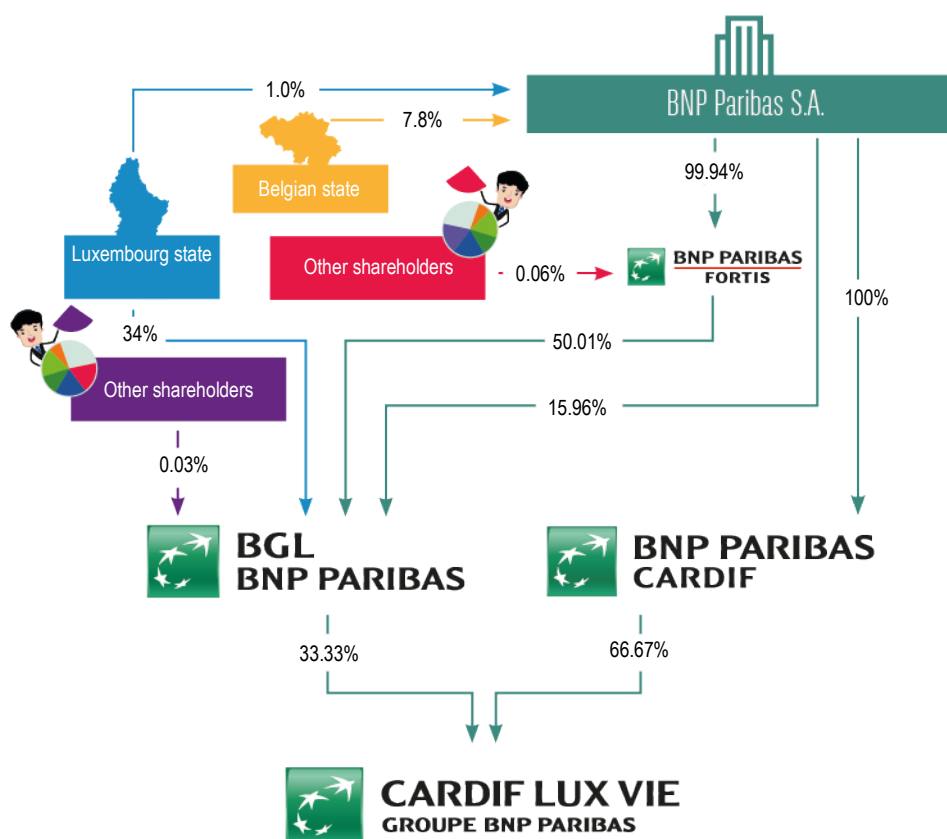
BNP Paribas Cardif is the majority shareholder in Cardif Lux Vie, with a shareholding of 66.67%. BGL BNP Paribas holds 33.33% of the shares in Cardif Lux Vie.

**BNP Paribas Cardif** is the insurance subsidiary of the BNP Paribas Group, a European leader in banking and financial services and one of the strongest banks in the world. Present in more than 30 countries with strong positions in three regions (Europe/Middle East/Africa, Asia and Latin America), BNP Paribas Cardif relies on a unique partnership-based business model and has become a global life and health insurance specialist and a major player in financing the economy.

**BGL BNP Paribas** is one of the largest banks in the Grand Duchy of Luxembourg and is part of the BNP Paribas Group. It offers an especially wide range of financial products and bancassurance solutions to individuals, professionals, private banking clients and businesses.



## ENLARGED VISION OF THE SHAREHOLDER STRUCTURE



In 2023, the Belgian state will reduce its stake in the French banking group BNP Paribas of which it was until now the largest shareholder with 7.8% of the capital. The Belgian State will now hold only 5.1% of the capital of BNP Paribas, in order to remain above the 5% threshold allowing it to retain a seat on the Board of Directors.

### A.1.b Significant events during the period

#### Ukraine crisis

The invasion of Ukraine at the end of February 2022 led many governments around the world to impose economic sanctions against Russia. The impact of these events on the financial markets and the world economy was significantly negative.

At the level of the General Fund, Cardif Lux Vie has no direct exposure to Russia, Ukraine or assets denominated in roubles, and any indirect exposure is negligible.

#### Extreme volatility of financial markets

Since the beginning of 2022, global markets have been affected by high volatility. Concerns have been raised about the persistence of high inflation, but also about the tightening of monetary policies, the geopolitical situation and the impact on economic growth.

The conflict between Russia and Ukraine and the lockdowns in China have weighed on global growth. Rising energy prices and worsening supply chain issues have amplified the inflationary pressures present since 2021. These pressures were caused by the reopening of Western economies in combination with bottlenecks in the global supply chains. As a result, annual inflation rates have reached record levels in all major economies and Central Banks have raised their policy rates with the objective of countering inflation.

The impact of this volatile environment is on new business volume, rate of claims and asset valuation. It is partly mitigated by the effects of countercyclical measures that underpin risk assessment, the implementation of risk management systems and the hedging of financial risks.

As part of the measures implemented by Cardif Lux Vie, an increase in the Company's equity was decided as a preventive measure. Thus, the Board of Directors decided on 07/11/2022 to increase the subordinated debt by 130 million euros and the Shareholders' Meeting on 09/12/2022 decided to increase the Company's share capital by 80 million euros.

#### **A.1.c Events after year-end**

At the beginning of March 2023, an insurance policy taken out with Cardif Lux Vie, invested in a dedicated internal fund, was affected by legal proceedings. Based on the information currently available, these events have no material impact on the results of Cardif Lux Vie for the year ended 31 December 2022.

#### **A.1.d General information**

The Company's annual accounts are audited by Deloitte Audit , 20 Boulevard de Kockelscheuer, L-1821 Luxembourg, under the responsibility of Ronan Richard, Certified Auditor.

Cardif Lux Vie is supervised by the Commissariat aux Assurances, 7 Boulevard Joseph II, L-1840 Luxembourg.

## A.2 Performance of the underwriting business

The following figures are taken from the annual financial statements of Cardif Lux Vie. The income statement net of reinsurance and after tax is presented below:

In millions of euros	2022	2021	%
Premiums	2,685	3,386	-21%
Investment income	682	578	18%
Unit-linked insurance adjustments (capital gains)	125	2,185	-94%
Other technical income	11	22	-50%
Claims incurred	- 3,049	- 1,848	65%
Cost of life insurance provisions and other technical provisions	2,742	3,839	-171%
Profit-sharing	- 103	43	141%
Acquisition and administration costs	- 106	103	2%
Investment expenses	- 231	102	127%
Unit-linked insurance adjustments (capital losses)	- 2,690	156	1628%
Other technical expenses	- 4	13	-65%
Income from transferred investments	- 14	14	4%
<b>Technical result of life insurance operations</b>	<b>49</b>	<b>53</b>	<b>-8%</b>
Non-technical result (excluding taxes)	14	14	4%
<b>Pre-tax profit for the period</b>	<b>63</b>	<b>66</b>	<b>-5%</b>
Taxes	- 16	16	-3%
<b>Profit for the period</b>	<b>47</b>	<b>50</b>	<b>-6%</b>

### A.2.a Growth in revenue

Cardif Lux Vie collected 2.7 billion in premiums, 67% of which were in unit-linked products (-21% compared to 2021):

In millions of euros	2022	2021	%
Wealth Management – Unit-linked	1,787	2,339	-24%
Wealth Management – General Fund	818	977	-16%
<b>Total Wealth Management</b>	<b>2,605</b>	<b>3,316</b>	<b>-21%</b>
Local Market, savings	72	59	21%
Local Market, protection	12	15	-22%
<b>Total Local Market</b>	<b>83</b>	<b>74</b>	<b>12%</b>
<b>Total Inflows</b>	<b>2,689</b>	<b>3,390</b>	<b>-21%</b>

*The €4 million difference in premiums for 2022 between the two tables above is due to ceded reinsurance premiums.*

Net inflows were -353 million euros, due in particular to redemptions from the General Fund in Italy in an unfavourable interest rate environment at the end of the year.

Cardif Lux Vie's Wealth Management business generated 2.6 billion euros in turnover, 69% of which in units of account.

This year was characterised by a commercial event, supported by concrete actions in terms of digitalization with the delivery of 100% dematerialized processes in the e-Club platform for France and Belgium. Business was also driven by the development of our unit-linked products: expansion of the distribution of the Specialized Insurance Fund, facilitation of the integration of private equity funds into our offer (investment strategy of the Dedicated Internal Funds, but also creation of thematic Collective Internal Funds and integration of numerous external funds into our catalogues). Lastly, we have offered our partners personalized support, including the acceleration of the provision of appendices to dedicated internal funds and the establishment of regular operational monitoring committees. This forms the basis of what is a solid and ambitious development strategy for the years ahead.

Activity in the Luxembourg resident market amounted to 85 million euros (Wealth Management and Local Market), and inflows for retail clients in Luxembourg and the Greater Region amounted to 83.5 million euros (up by more than 12.3% compared with 2021).

Inflow for Investment Savings was up by 34%, while Protection insurance stood at 12 million (impacted by the sharp decline in the sale of mortgages following the rise in interest rates) and Programmed Savings remained stable (-2% compared with last year). As regards distribution, business generated via brokerage networks grew by 25% while collaboration with the BGL BNP Paribas network was further strengthened. The continued digitalization of our platform, and in particular the delivery of a fully digitalized Outstanding Balance Insurance process, should enable the Company to continue to gain market share and develop new partnership opportunities.

### **A.2.b Growth in profit for the period**

Cardif Lux Vie recorded net income after tax of 47.1 million euros, down 5.8% compared to 2021 in a complex geopolitical and economic environment.

Cardif Lux Vie reported a decline in revenues from its insurance business in a situation of unfavourable financial markets and tension on interest rates compared to a year 2021 marked by the recovery of financial markets and exceptional items.

The Company's overheads are up by 2.1% compared with 2021 in an inflationary environment and as work continues on improving the customer and partner processes and adapting the product offering while continuing to implement the transformation plan.

Cardif Lux Vie closed the year with a technical result from its insurance activities of 48.6 million euros, down 7.5% compared to 2021.

The company had a non-technical result relating to return on equity of 14.2 million, up 3.6% compared to 2021, driven by growth in average invested equity.

Pre-tax profit stood at €62.8 million in 2022, down 5.2% from 2021.

## A.3 Performance of investment activities

### A.3.a Composition of investments

**Assets representing** the liabilities of Cardif Lux Vie in Units of Account amounted to €21.9 billion at 31 December 2022 (2021: €23.5 billion). The breakdown is as follows:

<i>In millions of euros, at</i>	31 December 2022	31 December 2021
Internal funds	19,885	21,451
Specialised Insurance Fund	601	477
External funds	1,390	1,549
<b>Total unit-linked investments</b>	<b>21,876</b>	<b>23,477</b>

At 31 December 2022, the net carrying amount of **investments for which the investment risk is not borne by the policyholder** was €9.06 billion (2021: €9.14 billion) including accrued interest not yet due (€71.7 million; 2021: €82.6 million). These are reported as **investments other than unit-linked investments**.

Cardif Lux Vie's asset allocation, excluding assets covering unit-linked liabilities, was as follows:

<i>Market value in millions of euros*, at</i>	31 December 2022	31 December 2021
Equity holdings	166	155
Listed equities	273	327
Sovereign bonds	1,804	2,517
Corporate bonds	4,443	5,329
Structured bonds	156	156
Investment funds	1,615	1,602
Other investments	7	7
Derivatives	107	20
Deposits	3	6
<b>Investments (excluding investments representing unit-linked liabilities)</b>	<b>8,574</b>	<b>10,119</b>

\*including accrued coupons

The main part of these investments was carried by the General Fund in euros: a net carrying amount of €9.05 billion in 2022, including accrued coupons (2021: €9.12 billion) and €8.56 billion at market value, including accrued coupons (2021: €10.09 billion), of which the breakdown is given below.

In millions of euros*, at	31 December 2022		31 December 2021	
	Net carrying amount	Market value	Net carrying amount	Market value
Fixed-rate bonds	6,597	5,752	6,850	7,267
Floating-rate and inflation-linked bonds	712	651	704	726
Equity-linked bonds	-	-	-	-
Equities and similar	579	840	659	1,090
Real estate	265	312	289	323
Short term	568	569	287	287
Diversification assets (fixed income)	305	327	308	372
Derivatives	22	107	23	20
<b>Total</b>	<b>9,048</b>	<b>8,558</b>	<b>9,119</b>	<b>10,085</b>

\* including accrued coupons

In terms of market value, the proportion of fixed-rate investments in the Cardif Lux Vie General Euro Fund portfolio is down to 67.2% at the end of 2022 compared to 72.1% at the end of 2021. The variable-rate bond portfolio increased slightly to 7.6% at the end of 2022, compared with 7.2% of the portfolio at the end of 2021. Short-term investments are on the rise, reaching 6.6% in 2022 compared to 2.8% in 2021.

Beta equity exposure (convertibles, equity indexed, other equity and diversified) is down to 9.8% at the end of 2021 from 10.8% at the end of 2021.

For the year 2022, the real estate allocation is up slightly at 3.6%.

### A.3.b Financial performance

**The rate of return on investments in Units of Account** is -10.24% in 2022, down from 10.81% in 2021. This variation is linked to the performance of the financial markets.

**The rate of return on the assets of the Cardif Lux Vie General Fund** was 2.15% in 2022. The increase in reinvestment rates, which rose above the purchase rate of the bond holdings in the second half of 2022, kept the yield on these holdings close to last year's level. In addition, the strengthening of the dollar against the euro and the triggering of our macro-hedges as rates rose limited the decline in the portfolio's overall return. For example, the 10-year risk-free rate (10-year swap rate) has risen by more than 280 bps over the year 2022.

The rate of return on assets of the Cardif Lux Vie General Fund is down 9 bps compared to 2021. This change is due to the 6 bps decrease in the exceptional return, which includes the results of asset disposals and foreign exchange, which had been particularly high in 2021. The recurring return from dividends, coupons and the amortisation of premiums/discounts was down by 3 bps.

The difference between the rate of return on the General Fund assets and the gross rate used for customers is allocated to the profit-sharing reserve.

## A.4 Performance of other activities

There are no other activities to review.

## A.5 Other information

There is no other specific information.

## B. System of governance

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### B.1 General information about the system of governance

Cardif Lux Vie is a public limited company with a Board of Directors and General Management.

#### B.1.a Board of Directors

The Board of Directors determines the strategic policies and ensures their implementation. It plays a major role in the control and supervision of the company's management. It approves the financial statements and ensures the quality of the financial information provided to shareholders.

The Board of Directors is involved in the internal risk and solvency assessment process. It approves the written policies referred to in Section 71-3 of the law of 7 December 2015 on the insurance sector, as well as the various required regulatory reports.

The Board of Directors is responsible for the appointment and termination of the duties of the effective managers, whose actions it supervises. The Board of Directors may carry out or cause to be carried out such controls and verifications as it deems appropriate.

The decisions of the Board of Directors are executed by the Managing Director.

The Board shall meet as often as circumstances or the interests of the Company may require. Prior to Board meetings, directors receive information enabling them to discharge their duties in the appropriate manner. They may also be sent important and urgent information at any time, particularly between Board meetings.

At the same time, each Board member may request all documents and information that they believe necessary to carry out their mandate.

The Chairman presides over the work of the Board and oversees the proper functioning of the Company's committees.

In 2022, the Board of Directors of Cardif Lux Vie met seven times.

#### B.1.b Special committees of the Board of Directors

The Company's Board of Directors is supported by three specialized committees: the Audit & Risks Committee, the ALM and Investments Committee and the Remuneration and Nomination Committee. These committees have an advisory and supervisory role. They issue proposals, recommendations or opinions to the Board of Directors of Cardif Lux Vie within their field of competence.

Each Committee reports on its activity to the Board of Directors.

**The Audit & Risks Committee** ensures the effectiveness of the risk management system and the permanent control system. It reviews the general risk policy and monitors all Cardif Lux Vie risks.

It is also responsible for monitoring the process of preparing financial information and the performance of the statutory auditors' duties. The Committee also ensures their independence. Prior to formal approval by the Board of Directors, the Committee reviews internal policies and the various regulatory reports required. On financial management issues, the Committee studies all matters relating to solvency and capital management.

**The ALM and Investments Committee** monitors the credit, market and liquidity risk of the Company's portfolio. It verifies the adequacy of the Company's assets and liabilities. It examines the asset allocation strategy of the General Fund and annually reviews the achievements and performance of the Company's portfolio. It validates the strategic allocation of the General Fund. Finally, it informs the Board of Directors of any significant event that has an impact on the portfolio.

**The Remuneration and Nomination Committee** is responsible for recommending to the Board of Directors suitable candidates for the position of director and the heads of key functions. Its opinions are established in accordance with the principles defined in the "Competence and Integrity" policy. It is also responsible for studying and assessing the remuneration policy (principles, remuneration components, conditions for the allocation of variable portions) and reviewing its implementation.

### B.1.c Effective managers

At 31 December 2022, the Executive Committee comprised seven managers, two of whom are effective managers.

Alexandre DRAZNIEKS and Bénédicte BURGUN are the two effective managers appointed by the Board of Directors. Alexandre DRAZNIEKS is Managing Director of Cardif Lux Vie.

The two effective managers act in a collegial manner with regard to taking important decisions concerning daily management, while noting that Mr. Alexandre DRAZNIEKS will be more particularly in charge of the aspects of strategy and commercial activity. The Managing Director defines the organisational structure and decision-making processes. He/she is also responsible for implementing risk management and internal control mechanisms. He/she reports regularly to the Board of Directors on his/her actions. Bénédicte BURGUN is responsible for financial aspects.

Each of the two effective managers has all of the powers to act with regard to third parties that the law and the articles of association confer on executive officers, in particular the power to act as sole signatory on matters of day-to-day management of the Company.

Mr. Alexandre DRAZNIEKS has the sole power to delegate his daily management powers, provided that the delegations are accompanied by rigorous procedures and adequate control.

The Managers are responsible for the achievement of the targets set in the strategy. To this end, they organise, manage and supervise the transactions and teams for which they bear responsibility. They report to the Managing Director. They meet as the Executive Committee, which is responsible for preparing strategic decisions.

### B.1.d Operational governance bodies

The managerial governance of Cardif Lux Vie is supported by operational governance bodies and a system of delegation of powers.

The **Executive Committee** of Cardif Lux Vie participates in the development of strategic policies and in the decisions necessary for their implementation. It allocates resources, organizes and controls the implementation of decisions, monitors the company's results and financial balance, and examines significant business operations, development and transformation projects, as well as human resources issues. It pays particular attention to monitoring the effectiveness of internal control, internal audit and risk management systems, which are considered essential to the company's good internal governance.

As of 31 December 2022, the Executive Committee was composed of seven members, three of whom were women and four men.

The Executive Committee is supported by so-called "tactical" and "supervisory" committees. Tactical committees are decision-making bodies in which certain risks or sensitive issues are studied ex-ante. Supervisory committees supervise and coordinate the internal control and risk management systems.

The system of delegation of powers is mainly organized around colleges of delegates. Each authorised person can bind Cardif Lux Vie with regard to third parties for ongoing transactions (i.e. usual transactions for the Company, concluded at normal market conditions) within the scope of their powers. A specific delegation of powers concerns asset management operations.



### B.1.e Key functions

The Solvency II rules, as applied within Cardif Lux Vie, define the following four key functions:

- The **Risk Management function**, headed by the Head of Risk Management, assists the General Management and the other functions in implementing the risk management system. It monitors the risk profile and ensures that it is in line with the risk appetite defined by the Board of Directors. It reports on risk exposure and advises the Board of Directors on any questions in relation to risk management.
- The overall mission of the **Compliance function**, managed by the Head of the Compliance Department, is to provide the effective managers and the Board of Directors with reasonable assurance that compliance, regulatory and reputational risks are properly monitored, controlled and mitigated;
- The **Audit function**, provided by the Chairman of the Audit & Risks Committee, is in charge of assessing the adequacy and effectiveness of the internal control system, as well as other elements of the system of governance. It is in charge of periodic control within Cardif Lux Vie. Its purpose is to provide General Management and the Board of Directors with an independent assessment of the quality and effectiveness of the governance and internal control system. It makes recommendations to improve its quality and compliance.
- The **Actuarial function**, headed by the Actuarial Director, is responsible for coordinating the calculation of technical reserves, ensuring the appropriateness of the methodologies, underlying models and assumptions used to determine them, assessing the sufficiency and quality of the data used to supervise this calculation and comparing the best estimates with empirical observations. It reports to the Board of Directors on the reliability and appropriateness of the calculation of technical reserves, gives an opinion on underwriting and reinsurance policies and contributes to the risk management system. It is also in charge of the calculations for producing regulatory solvency reports.

Like the effective managers, each of the persons responsible for these key functions is subject to a review of his or her integrity, experience and competence and is notified to the Commissariat aux Assurances (CAA) upon appointment.

The heads of the Risk Management and Compliance functions report to the Managing Director of Cardif Lux Vie and to the heads of the corresponding functions at BNP Paribas Cardif. This organization helps to strengthen the independence of these functions and the consistency of the systems within the BNP Paribas Cardif Group.

In the event of disagreement between the Managing Director of Cardif Lux Vie and the head of the BNP Paribas Cardif function concerned, arbitration is carried out by the Board of Directors.

In accordance with Solvency II regulations, the heads of key functions have a right of direct access to the Board of Directors in the event of a major risk or serious malfunction likely to compromise the accountability of directors or the sound management of the Company.

The heads of the four key functions have permanent invitations to the Audit & Risks Committee. The heads of the Risk Management and Actuarial functions have permanent invitations to the ALM & Investments Committee.

**B.1.f Remuneration policy**

Cardif Lux Vie's remuneration policy is based on the remuneration policy of the BNP Paribas Cardif Group.

This is based on the principles of fairness and non-discrimination and involves an annual review of fixed and variable remuneration.

The method for determining individual variable remuneration includes the evaluation of quantitative and qualitative performance. It is established on the basis of the achievement of objectives, the contribution to risk management and the assessment of each person's professional conduct with regard to team spirit, compliance rules and the Code of Conduct.

The Board of Directors of Cardif Lux Vie is responsible for the remuneration of Executive Committee members.

**B.1.g Conflicts of interest**

In 2022, no conflict of interest was reported by Cardif Lux Vie's directors.

## B.2 Requirements for competence and integrity

The Board of Directors appoints the effective managers and the heads of key functions in view of their expertise and experience, evaluated according to their professional qualifications, know-how and experience in the insurance industry or other financial sectors.

In addition to the skills related to their field of expertise, the managers of key functions have the managerial skills necessary to manage their function. In particular, they know how to adapt their communication according to their interlocutors in order to be understood and to emphasize the essential points.

The skills and integrity of the effective managers and those responsible for key functions are re-examined each year as part of the professional evaluation process.

The effective managers and the heads of the key functions of Cardif Lux Vie possess – both individually and collectively – the necessary expertise, experience, skills, understanding and personal qualities, particularly in terms of professionalism and integrity, to discharge their duties in relation to each of Cardif Lux Vie's core businesses and ensure effective governance and supervision.

## B.3 Risk management system

### B.3.a Comprehensive risk management framework

Risk management is a process used to identify, measure, monitor, manage and account for risks originating from the external environment and those intrinsic to the Company. The aim is to guarantee the solvency, business continuity and development of the Company while maintaining satisfactory levels of risk and profitability.

The risk management framework is organized by the Chief Risk Officer (CRO) and the Risk Department (RISK).

The CRO is responsible for advising the Board of Directors and the effective managers on risk management governance, policies and strategy. He/she is a member of the main tactical and supervisory committees and gives his/her prior opinion on decisions that have a significant impact on Cardif Lux Vie's risks in application of the "independent review" principle.

RISK exercises continuous second-level control over credit, market, underwriting and operational risks. As part of this task, it is responsible for ensuring the soundness and sustainability of development projects and operating practices, as well as their overall compliance with the risk appetite set by the Board of Directors. RISK's permanent duties include providing advice on Cardif Lux Vie's risk policies, analysing the risk portfolio from a long-term perspective, ensuring the quality and effectiveness of monitoring procedures, and defining or validating risk measurement methods. It is also responsible for verifying that all the consequences in terms of risk of launching new activities or products have been adequately assessed. RISK also performs these functions for risks related to information and communication technology (ICT) and personal data protection, drawing on the expertise of BNP Paribas Cardif's teams.

RISK also has a role as an independent reviewer concerning cross-sectoral risks such as sustainability and model risk.

The risk management framework is structured around key processes or families of risks on which RISK's independent review is applied.

### B.3.b Roles, responsibilities and key risk management process

#### Risk strategy process

RISK advises the effective managers and the Board of Directors on risk management strategy, particularly through the risk appetite framework. RISK monitors and reports regularly on the risk profile and its adequacy in relation to the approved risk limits.

#### Identification of risks

RISK conducts an annual risk assessment through the **risk identification process**. All significant risks to which Cardif Lux Vie is exposed are identified, regardless of who is responsible for them. At the end of this assessment, a risk map is established. It allows the definition of the stress scenarios that will be tested as part of the ORSA process. The risk map is validated annually by the Board of Directors. It is updated on an ongoing basis and any new risks or significant changes are reported to the Board of Directors.

**Risk and Control Self Assessment (RCSA)** is a structured approach to identifying and measuring operational risks. This is a risk management exercise carried out by operational managers with the help of permanent controllers, reviewed by the contacts in the second lines of defence consisting of Compliance, Finance, and RISK. The result of the RCSA feeds into the risk identification process.

#### Independent review

RISK ensures that key risk policies are consistent with the risk management framework. It performs an independent review of the risk assessment and proposes any risk mitigation actions that might be required. This independent review is also applied to data, tools and models, methods and results.

### Stress tests

In order to benefit from dynamic risk management and monitoring, Cardif Lux Vie has developed a system of stress tests.

Stress tests are an integral part of risk management. It aims to identify the evolution of solvency and value indicators in more or less favourable hypothetical environments, in order to better understand the nature of the risks to which the Company is exposed and to better anticipate critical situations.

Stress tests are mainly carried out during the ORSA process and specifically in the event of a significant change in the risk profile.

Following the stress tests, action plans are defined to realign the risk exposure with risk appetite, if necessary.

### Capital management

Cardif Lux Vie's capital management policy aims to ensure a sound level and quality of capital in order to meet prudential requirements and guarantee sufficient financial resilience.

Capital management is the joint responsibility of the Finance Department and the Actuarial Department, in close interaction with RISK. To ensure that it has a sufficient level of capital, the Company applies the following principles:

- Maintaining the capital at an appropriate level taking into account the business, risk profile, growth, strategic initiatives and regulatory requirements;
- Optimising the prudential capital structure according to the different types of capital in accordance with the regulatory limits;
- Forecasting capital requirements and defining their allocation.

### Own Risk and Solvency Assessment (ORSA)

Cardif Lux Vie conducts an annual long-term assessment of its solvency and risks, including:

- The definition and evaluation of a capital requirement specific to the risk profile;
- The level of capital that the Company wishes to hold to cover this specific requirement, beyond the regulatory capital requirement;
- The prospective solvency ratios in the context of the medium-term plan;
- The resilience of these ratios in the case of stress tests.

According to the levels of solvency ratios observed and the projections made during the ORSA, capital adjustments may be applied.

Through the ORSA, Cardif Lux Vie ensures that the budget and medium-term plan are developed and tested against risk appetite indicators, for those that can be projected such as the solvency ratio or net investment.

### Solvency II reporting

Within the framework of the Solvency 2 Directive, Cardif Lux Vie submits this report annually to the Commissariat aux Assurances, the regular report to the supervisor in accordance with circular letter 17/11 of the Commissariat aux Assurances and the ORSA report.

### Risk culture

Sound risk management is one of the principles of the BNP Paribas Group, which has always prioritised a culture of risk control and management.

The Risk Department plays a coordinating role in risk culture initiatives.

Training is provided by permanent operational controllers to raise awareness of operational risks (in particular fraud, incident detection and reporting, and risk mapping).

### Remuneration Process

The annual guidelines for the remuneration review process state that during the annual performance review, the manager should pay particular attention to the employee's professional conduct. This assessment covers

compliance with the Group's values, Code of Conduct, procedures and risk management, as well as the proper application of compliance rules.

### **B.3.c Management of risk categories**

#### **Underwriting risk management**

Underwriting risk is the risk of loss in value due to sudden and unexpected fluctuations in insurance payouts that may result from inadequate pricing or provisioning assumptions due to internal or external factors including sustainability risk. Depending on the type of activity, this risk is the result of statistical, macroeconomic or behavioural changes, as well as phenomena linked to public health or disasters.

The governance set up to prevent and control underwriting risks is based on reference documents and tools that define the principles, rules, methodologies and best practices to be followed by the actuarial teams throughout the life cycle of the policies, as well as the work to be carried out and the reports to be produced. It also specifies which practices are prohibited or accepted subject to conditions.

Risk underwriting is consistent with the specific delegation rules, involving several levels depending on the assessment of the maximum acceptable loss, the estimated capital requirement under Solvency II, and the estimated return on the policies in question.

Reinsurance is an additional element of the underwriting risk management policy, especially in limiting individual exposure and outsourcing risks that do not feature among Cardif Lux Vie's risk preferences or as part of its risk appetite.

The regular monitoring of these risks by Cardif Lux Vie's effective managers is based on a series of weekly indicators on the activity (redemptions and net inflows) of the General Fund and of the Units of Account. These indicators are monitored by the Executive Committee and the various control functions.

#### **Market, liquidity and credit risk management**

Market risk is the risk of loss associated with adverse movements in the financial markets. These adverse movements are mainly reflected in price variations (exchange rates, bonds, equities and commodities, derivatives, real estate, etc.) and are the result of fluctuations in interest rates, spreads, volatility or correlation.

Liquidity risk is the risk of not being able to meet expected or unexpected future liquidity demands from insurance commitments, through the inability to sell assets in a timely manner for an acceptable amount without significant impact on market prices, and/or to have alternative financing instruments available in a timely manner. The liquidity policy describes the rules for identifying, measuring, managing and controlling liquidity risk so that it remains in line with risk appetite.

Credit risk is the risk of loss or adverse change in financial condition related to the credit quality of issuers of securities, counterparties or any other debtor to whom the Company is exposed. Among debtors, risks associated with financial instruments (including banks in which Cardif Lux Vie holds deposits) and risks associated with receivables related to the insurance business (reinsurance balances) are distinguished into two categories: credit risk on assets and credit risk on liabilities.

Market and credit risks factor in concentration risk, which corresponds to all exposures for which the risk of loss would be significant.

ALM risk is the risk of financial loss or loss of solvency caused by an inconsistency between investment policy and underwriting and reinsurance policy. This risk may relate, for example, to asset allocation, duration differences, the rates paid to policyholders or the rate at which benefits are paid. It materialises in the form of differences between the expected financial flows and those actually observed (inflows or outflows) due to the uncertainty inherent in the modelling of the interactions between assets and liabilities. Asset and liability management risk can lead to strategic errors, damage to reputation, liquidity problems or insolvency. This risk is managed through the production of studies that enable the strategic allocation of assets to be set, validated in committees at various levels to ensure that it is in line with risk appetite. This strategic allocation is then used to manage the investments.

The investment policy dictates the framework applicable to Cardif Lux Vie's asset management, in accordance with the prudent person principle defined in Article 132 of the Solvency 2 Directive, Article 114 of the Law of 7 December 2015 on the insurance sector and Article 53 of the Regulation of the Commissariat aux Assurances N°15/03 of 7 December 2015. The implementation of the investment policy is entrusted to the Asset

Management Department for the General Fund and to the Finance Department for the Units of Account and is governed, for each portfolio, by a management agreement. The latter sets out the investment limits according to the asset classes. For the General Fund, the margins for manoeuvre defined take into account the ALM recommendations and the strategic allocation adopted.

The investment policy provides for dedicated Asset Management committees. The Director of Asset Management is a member of the Executive Committee.

### Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, information systems failures or external events, whether deliberate, accidental or natural.

Operational risk includes the following categories: execution, delivery and process management, internal and external fraud, cyber security, business and information systems disruption, third party risk management, privacy, employment practices, workplace and property security.

Operational risk excludes risks arising from strategic decisions and reputational risks. It includes legal, tax and compliance risks. Compliance risk is defined as the risk of sanctions (judicial, administrative or disciplinary), as well as the associated financial penalties, resulting from non-compliance with laws, regulations, codes of conduct, standards of good practice applicable to insurance and financial activities (including instructions given by the Executive Committee, in particular those pursuant to a recommendation or guidance given by a supervisory authority). This risk is covered by all the processes, tools and methods put in place by Cardif Lux Vie, and in particular by the work of the Compliance function.

This risk must be managed, in the sense that it must be kept within acceptable limits through avoidance, mitigation or transfer measures.

The aims of Cardif Lux Vie's operational risk management are:

- to reduce the likelihood of occurrence of an operational risk event jeopardising:
  - o the trust that its customers, partners and employees have in the Company;
  - o the quality of its products and services;
  - o the profitability of the activities it conducts;
  - o the efficiency of the processes it manages;
- the implementation of a system that provides reasonable assurance of risk control to the effective managers, the Board of Directors and the regulator.

## Strategic risk management

**Strategic risk** includes reputation risk and emerging risks. It is the responsibility of the Board of Directors.

Strategic risk relates to the failure of strategic initiatives (acquisitions, mergers, new products, new markets etc.) resulting in losses. This risk is linked to:

- the external environment through the risk of losses associated with fluctuations in volumes, margins and costs due to external or sector-based factors or market factors more generally;
- poor implementation of the risk strategy for the development of activity.

Emerging risks are new or evolving risks that are difficult to quantify and with regard to which the nature, timing and extent of potential losses are particularly uncertain.

Reputational risk is defined as the risk of damage to the trust placed in the company by its customers, suppliers, counterparties, shareholders, employees, regulators or any other third parties whose trust, for whatever reason, is a necessary condition for the normal carrying on of the business.

This risk is contingent on all of the risks to which Cardif Lux Vie is exposed and is covered by all the processes, tools and methods put in place by Cardif Lux Vie, and by the work of the Compliance function in particular.

## Cross-sectoral risk factors

Cross-sectoral risk factors are underlying risks that may affect more than one of the risk categories mentioned above.

## Model risk

The use of models may impact each risk category depending on the purpose of the models, their use, and the effectiveness of the risk management system that supports them.

Model risk is the negative consequence:

- of decisions based on models developed or deployed incorrectly, or on the inappropriate use of results of models, called **Model Error**.
- the uncertainty inherent in the model in relation to the reality it seeks to measure, which is referred to as **model uncertainty** (e.g. market risk for economic scenario generators, underwriting risk for a pricing model).

The main models and projection tools are integrated into a global technical architecture at BNP Paribas Cardif level and shared through a common international platform. The Actuarial Department is responsible for the implementation of products and strategic modelling choices in these projection models used within Cardif Lux Vie. The Risk department carries out an independent review of the projection model. Specific committees are set up to monitor developments, while detailed process documentation is used to explain the results generated by the models, to identify the limitations of the methodological choices made, and to follow up on these.

## Sustainability risks

Sustainability risks are environmental, social or governance (ESG) events or conditions whose occurrence could have an actual or potential negative impact on the value of an investment or the liabilities of an insurance policy.

Cardif Lux Vie is more specifically exposed to climate change risks, either directly in its own operations or indirectly through its investment activities. There are two main types of risks related to climate change: (i) transition risks, which result from a change in the behaviour of economic and financial agents in response to the implementation of energy policies or technological changes; (ii) physical risks, which are the consequence of the direct impact of climate change on people and property via extreme weather events or long-term risks such as rising water levels or increased temperatures. In addition, liability risks may arise from both categories. They correspond to the damages that a legal entity would have to pay if it were judged responsible for global warming.

Cardif Lux Vie integrates climate change risks into its management process. This implies a reduction in the investable financial universe. Non-financial criteria are taken into account in the management of investments, by being integrated into management, reporting and risk monitoring tools.

Cardif Lux Vie also integrates environmental, social and governance (ESG) risks into **its underwriting policies and processes** because their occurrence could have an actual or potential negative impact on the liabilities of an insurance policy. The attention paid to ESG risks in the underwriting process ensures that Cardif



Lux Vie's core values are respected, that reputational risk is prevented and that the impact on policies is taken into account.

**Conduct risk**

Conduct risk is the risk that inappropriate behaviour, i.e. behaviour contrary to the rules of conduct set forth in the Code of Conduct, by Cardif Lux Vie or one of its employees may lead to the provision of inappropriate financial services.

## **B.4 Own Risk and Solvency Assessment**

The Own Risk and Solvency Assessment (ORSA) is an ongoing risk management process coordinating and consolidating all processes relating to the identification, quantification, management and oversight of risks and how these are reported. An annual ORSA report has been produced since 2015.

### **B.4.a Risk profiling**

At Cardif Lux Vie, risk profiling is based on the risk appetite statement which sets limits on the nature, quantity and quality of the risks that the Company is prepared to take over the long term as part of its strategy.

The risk profile is measured using a set of metrics assessed at least quarterly to ensure that it matches the risk appetite.

### **B.4.b ORSA report**

The report prepared in 2022 was approved by the Board of Directors on 12 December 2022 after being reviewed by the Audit & Risks Committee. It was sent to the Commissariat aux Assurances.

## B.5 Internal control system

### B.5.a Organisation of internal control

#### Definition, objectives and standards of internal control

Cardif Lux Vie has set up an internal control and operational risk management system designed to ensure overall control of risks and to provide reasonable assurance that the objectives set by the company are met.

The implementation of this control system is based on three lines of defence:

- operational staff are the first line of defence and deploy the risk management system for the activities under their responsibility;
- the functions of the second line of defence define the normative framework within which the risk management for which they are responsible is carried out and supervise its proper implementation;
- the third line of defence, among other things, checks the effectiveness and quality of the Permanent Control system.

Cardif Lux Vie's internal control and operational risk management policy is established in accordance with the regulatory provisions and standards of the BNP Paribas Cardif Group.

It specifies the framework of this system and constitutes the basic internal control framework. It aims to contain operational risk within acceptable limits by reducing, transferring or avoiding risks while at the same time maintaining a balance between the risks taken and the cost of managing them. Firstly, it sets out the objectives of internal control, namely:

- the development of a risk culture among staff;
- the efficiency and quality of the company's internal operations;
- the reliability of internal and external information;
- the security of operations;
- compliance with laws and regulations and with internal policies.

The policy then sets out the rules for the organization, responsibilities and scope of intervention of the various internal control players and establishes the principle that the control functions (Compliance, Legal and Tax, Finance, Risk Management and Internal Audit) operate independently.

#### Scope of internal control

One of the fundamental principles of internal control is the exhaustive nature of its scope: it applies to all risks regardless of type and to all of Cardif Lux Vie's activities. It also covers the provision of essential or important operational services or tasks that have been outsourced, subject to the regulatory conditions.

#### Fundamental principles of internal control

The internal control system at Cardif Lux Vie is based on the values and Code of Conduct of BNP Paribas and on the following additional principles:

- clearly established responsibilities: internal control is the business of every employee, regardless of level in the hierarchy or responsibilities. The exercise of a management function brings the additional responsibility of ensuring that the internal control system is properly implemented in the area being managed;
- a structured risk identification, assessment and management system (involving, among other aspects, a decision-making and delegation system, organisational principles, controls, a reporting and warning system etc.);
- independent control and supervision of risks: those responsible for operational activities bear ultimate responsibility for the risks that their activities generate, which means primary responsibility for setting

up and operating a risk identification, assessment and management system. The internal control system provides for the compulsory involvement, at the earliest possible stage, of functions that have independent control in the form of a second level of control.

This intervention takes the following forms:

- definition of overall normative framework for risk identification, assessment and management,
- definition of cases where an independent review from a function exercising second-level control and shared with the operational entity is necessary in the decision-making process,
- independent controls, known as second-level controls, carried out by the aforementioned function on the system put in place by the managers responsible for operational activities and on its operation (result of the risk identification and assessment process, relevance and compliance of risk control systems and, in particular, compliance with defined limits).
- separation of tasks: this is one of the essential elements of the risk control system. This involves assigning certain operational tasks that contribute to the same process to participants who report to different line managers or separating such tasks by other means, in particular IT;
- proportionality to risks: the internal control system must be implemented in a manner and with an intensity proportionate to the risks. This proportionality is assessed on the basis of one or more criteria, specifically:
  - intensity of risks,
  - complexity of the designed/marketed products and/or services provided.
- appropriate governance: the system is subject to governance involving the various players and covering the different aspects of internal control, both organisational and supervisory;
- a requirement for formalization and traceability: internal control is based on validated written policies and procedures. The related controls, their results, their use and the feedback from the entities to the higher levels of the group's governance are documented and traceable;
- a duty of transparency: all employees, whatever their position, have a duty to report the following transparently, i.e. spontaneously and without delay, to a higher level in their organisation:
  - any information required for proper analysis of the situation of the entity in which the employee works, and that may impact the risks or reputation of Cardif Lux Vie or the Group,
  - any issue that the employee cannot resolve alone when performing his/her role,
  - any abnormal situation that the employee observes.

Employees also have a right to report information in confidence, as provided for in the BNP Paribas Group's Code of Conduct and exercised within the framework of the right of ethical alert ("Whistleblowing") organised by Compliance;

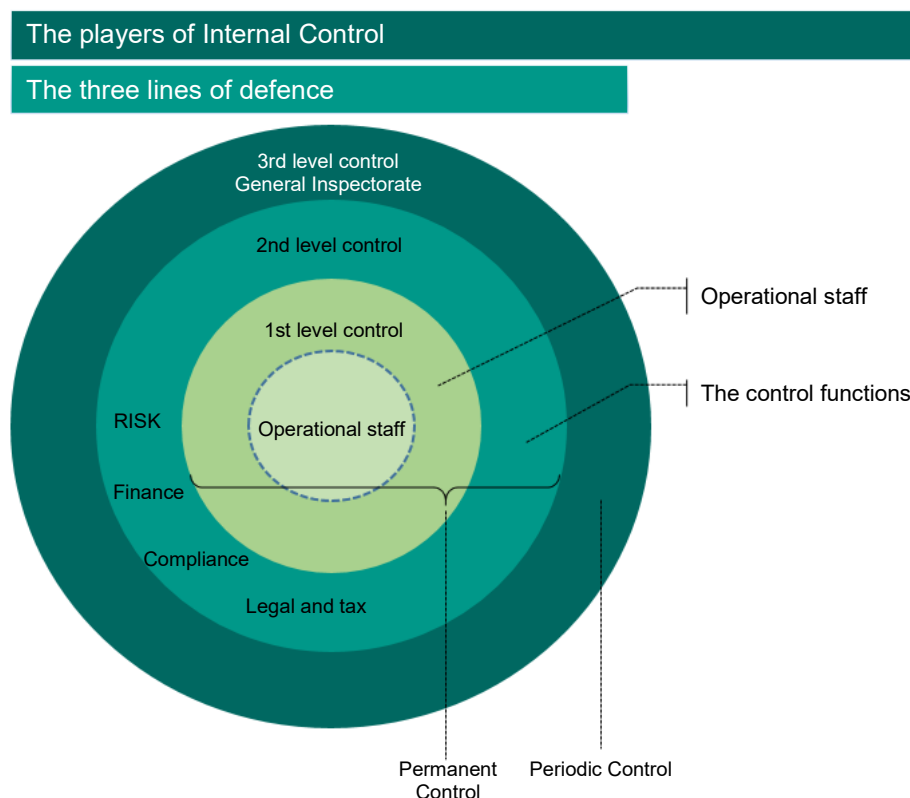
- continuous adaptation of the system to changes: the internal control system must be managed dynamically by the various parties involved. This adaptation to changes of any kind, which Cardif Lux Vie must cope with, must be done according to a periodic cycle defined in advance, but also continuously as soon as events justify it.

Observance of these principles is regularly verified, particularly during actions by the periodic control team (Internal Audit).

## Organisation of internal control

Cardif Lux Vie's internal control system is organized around three lines of defence, under the responsibility of the effective managers and the supervision of the Board of Directors.

- Permanent control is the continuous implementation of the risk management system and is ensured by the first two lines of defence. Periodic control, carried out by the third line of defence, is a verification and evaluation function that takes place according to a specific audit cycle.
- The second and third line of defence functions are referred to as independent control functions. The Compliance, Risk Management, Finance, Legal and Tax, and Internal Audit functions report on the performance of their duties to the Board of Directors or its specialized committees.



## Main parties responsible for internal control

Operational staff are the first line of defence: operational staff are the first people responsible for controlling their risks and the first players in permanent control. They act within the framework defined by Cardif Lux Vie's effective managers and reviewed by its Board of Directors, and transcribed into policies and procedures. The risk control system operated by the first line of defence forms what is known as the first-level control system. It is implemented by the employees and/or their line management. Cardif Lux Vie also has a team of permanent controllers who do not operate the processes that they control.

There are functions that provide a second level of control (second line of defence):

- The functions exercising second-level control are responsible for the proper functioning of the risk management system and its compliance with laws and regulations in a number of areas (themes and/or processes).
- In this respect, in their area of expertise and after consulting operational staff as necessary, they define the general regulatory framework within which the risk management for which they are responsible must be carried out, the terms of their intervention (thresholds, delegations, escalation, etc.), implement this system for the part that concerns them, and are responsible, in their area of expertise, for second-level permanent control. In relation to the operational entities, they keep a critical and independent eye on the identification and assessment of risks. They also contribute to dissemination of a risk culture and an ethical culture within Cardif Lux Vie.

The functions exercising second-level control are the Risk Management, Compliance, Finance, and Legal and Tax functions. The Risk Management, Compliance and Legal functions are integrated within BNP Paribas Cardif. These functions break down as follows:

- The Compliance function is responsible for the organization and supervision of the compliance risk management system. In this capacity, it contributes to the permanent control of compliance with legal and regulatory provisions, professional and ethical standards, as well as the policies of the Board of Directors and the effective manager,
- the Risk Management function reviews operational risks, underwriting, credit and market risk to ensure that these are consistent and compatible with internal policies and profitability targets, as well as permanently monitoring operational risk,
- the Finance function is the second line of defence in managing the risks associated with accounting and financial information, including the processes and the appropriateness of the systems for managing accounting and financial information.
- The Legal and Tax function is an independent second-level control function with responsibility for preventing and managing legal and tax risks.

The third line of defence is exercised by the independent and specialized Internal Audit function, which verifies the effectiveness and quality of the permanent control system. This periodic control system takes the form of investigative missions, known as third-level controls, which are carried out independently by the BNP Paribas Group's General Inspectorate unit.

The effective managers, under the supervision of the Board of Directors, are responsible for the overall internal control system.

The Board of Directors, at the proposal of the Audit & Risks Committee, reviews and approves the strategies and policies for risk taking, management, monitoring and mitigation and examines the system of governance.

### **B.5.b Key internal control procedures**

Cardif Lux vie has an internal control and operational risk management policy that is approved annually by the Board of Directors.

Procedures are one of the key elements of the permanent control system, alongside risk identification and evaluation, checks, reporting and management of the control system.

Cardif Lux Vie is based on the system deployed by BNP Paribas Cardif.

Cardif Lux vie documents the procedures to be applied, as well as the checks to be performed. These procedures constitute the basic reference framework for internal control.

Cardif Lux Vie is responsible for:

- identifying the procedures that it needs in order to carry out the tasks for which it is responsible and exercising its responsibilities, in compliance with the applicable regulations and the group's instructions, expressed in particular through the higher-level procedures already in place;
- establishing, maintaining and preserving the set of procedures identified in this way;
- making the procedures accessible to those who need to know them, informing them of their existence or evolution, and training them if necessary;
- ensuring the proper application of these procedures.

## B.6 Internal Audit function

The Internal Audit function is in charge of periodically monitoring the activities of Cardif Lux Vie. It aims to give the effective manager and the Board of Directors an independent assessment of the quality and effectiveness of the system of governance and internal control. It makes recommendations to improve its quality and compliance.

Internal Audit is outsourced to the General Inspectorate – Luxembourg Hub. The outsourcing relationship is documented in a framework agreement between Cardif Lux Vie and BGL BNP Paribas.

The typical assignments carried out by the Internal Audit function follow a multi-year audit plan designed to cover the entire scope according to an audit cycle. The audit plan is based on a Risk Assessment conducted each year by the General Inspectorate – Luxembourg Hub.

Special audits can be carried out if necessary. These assignments are carried out in accordance with the specific arrangements defined in the reference texts published by the General Inspectorate of the BNP Paribas Group. The effective manager of Cardif Lux Vie and the Chairman of the Board of Directors of Cardif Lux Vie can initiate and define the scope of the mission.

The Internal Auditors work independently across the entire auditable scope of Cardif Lux Vie. They can examine any topic and have free access to all documents, assets and personnel working directly or indirectly for Cardif Lux Vie. Similarly, they are free to issue their conclusions independently of the management of Cardif Lux Vie. They must remain independent, objective and impartial in their investigations and cannot be directly involved in operational management. They rely on a set of internal audit procedures maintained by the General Inspectorate of the BNP Paribas Group.

The head of the Internal Audit key function is the chairman of the Cardif Lux Vie Audit & Risks Committee and ensures the independence of this key function. He/she regularly reports to the Board of Directors of Cardif Lux Vie on the results of the work of the key function.

The mandate of the key Internal Audit function is defined by an audit policy approved and reviewed annually by the Board of Directors of Cardif Lux Vie.

## B.7 Actuarial function

The Actuarial & Risk Management Department of Cardif Lux Vie is responsible for the Actuarial function. The head of this department reports directly to the effective manager of Cardif Lux Vie And thus represents the Actuarial key function.

As part of the actuarial function, for each of the product lines marketed by Cardif Lux Vie, the Actuarial & Risk Management Department & is responsible for identifying, monitoring, quantifying and rationalizing underwriting risks and asset/liability management (ALM) risks. It organises its work in two units:

- *Product Actuarial unit*
- *Actuarial Risk Monitoring & ALM unit*

The **Product Actuarial unit** is in charge of the introduction of new products. It guarantees the quality of the business written (product approval, pricing and monitoring of the new business plan, approval of the technical bases). It ensures not only the appropriate level of valuation methods and reserves under local Lux GAAP and IFRS standards, but also the reporting of underwriting risks. Finally, the unit provides an opinion on the adequacy of the level of risk transfer (reinsurance) as part of its underwriting activities.

The **Risk Monitoring & ALM Actuarial unit** is responsible for the calculation of Solvency II technical provisions, ensuring that the methods, underlying models and assumptions used are appropriate. It oversees the implementation and monitoring of behavioural rules (redemption rules) during prospective studies, monitors and quantifies underwriting and market risks as part of its prudential closing activities, and assesses the adequacy and quality of the data used to calculate technical provisions and in the implementation of behavioural rules. With regard to provisions in accordance with IFRS and accounting standards, it calculates the provisions for future management charges (PGG), liabilities adequacy test (LAT) and the provision for deferred profit-sharing bonuses. As part of its assets and liabilities risks monitoring (ALM) it is responsible for the implementation of the strategic asset allocation and work relating to liquidity risk. Finally, it is responsible for coordinating and writing the regulatory narrative reports (RSR: regular supervisory report, SFCR: solvency and financial conditions report, AFR: actuarial function report), and supplies information to the Actuarial function regarding the reliability and adequacy of the Solvency II calculation of technical provisions.

The Actuarial & Risk Management Department therefore has, as part of its responsibilities, a view of underwriting and ALM risks over the entire product life cycle.

To carry out its functions, the Actuarial & Risk Management Department complies with a strong and evolving governance structure at the BNP Paribas Cardif Group level. This technical and decision-making framework enables the owner of the actuarial function to manage situations previously approved by the Group Actuarial function.

For any underwriting business not covered by this framework, the system of governance requires formal approval from the Group Actuarial function at the appropriate level and – depending on the issue – from the other departments involved. It identifies the bodies in which this approval must be obtained, and imposes a consensus among the managers involved in order to obtain approval.

Regarding the prudential and statutory closing processes and risk monitoring, the system of governance determines the methods and models to be used depending on the nature and materiality of the risks, defines the relevant indicators, and establishes the Group reporting requirements. Cardif Lux Vie's compliance with the system of governance is audited annually or semi-annually, depending on the relevant points. It includes completeness checks and random checks.

Pursuant to Solvency II, insurance undertakings must produce annual and quarterly quantitative reports (QRT: quantitative reporting templates), annual narrative reports (RSR: regular supervisory report) for the supervisor, SFCR (solvency and financial conditions report) for the public, and AFR (actuarial function report).

The Actuarial & Risk Management Department is the process owner for coordinating and producing these statements and reports. It directs the work and the Finance Department is one of the principal contributors.



## B.8 Outsourcing

### B.8.a Outsourced activities

Cardif Lux Vie outsources certain key activities, particularly in relation to IT infrastructure and fund accounting.

### B.8.b Governance of outsourcing

The outsourcing framework is governed by a specific governance system within the BNP Paribas Cardif Group and Cardif Lux Vie.

Approved by the Board of Directors and revised annually, Cardif Lux Vie's outsourcing policy defines the rules for the outsourcing of important or critical activities, with, in particular:

- a definition of the scope of activities that could be provided as an outsourced service;
- a definition of activities considered important or critical by nature and by risk, with their assessment criteria;
- the risk management arrangements relating to outsourcing;
- the requirements in terms of contractual security;
- the system for monitoring, control and management of outsourced activities during the production phase;
- relations with internal governance bodies and supervisory authorities, including the obligation to notify the CAA of outsourced activities deemed to be important and/or critical

### Organisation of outsourcing

Defining the risk management framework for outsourcing is the responsibility of the risk management function, particularly with regard to the risk framework, while the ETO Office is responsible for the operational implementation.

The Chief Operating Officer (COO) is responsible for:

- drafting the governance systems and procedures relating to outsourcing,
- permanently monitoring the outsourcing process and overseeing monitoring campaigns,
- compliance advice for the outsourcing of critical or important functions or activities,
- implementing a reversibility scenario with an escalation procedure so that the process can be transferred back to Cardif Lux Vie,
- enforcing compliance by implementing the documented security requirements, including aspects such as the business continuity plan (BCP) and disaster recovery plan (DRP), regardless of the different levels of delegation or outsourcing,
- the contribution to regulatory reports.

The ETO Office endeavours to involve Cardif Lux Vie's Compliance, Risk Management and Permanent Control functions as soon as possible to ensure that the regulatory, operational risk and business continuity aspects are fully taken into account in the outsourcing project.

### Supervisory body

The Outsourcing Committee (or Outsourcing Local Committee) monitors and oversees the risks associated with outsourcing at Cardif Lux Vie.

The Outsourcing Committee is composed of managers from the various functions involved in outsourcing (Legal & Tax, Compliance, Finance, Risk, Actuarial, Global Security, Operational Risk/Permanent Control, Permanent, IT, etc.) and the Operational Risk Manager (ORM).

### Delegation principles

Since Cardif Lux Vie is a subsidiary of the BNP Paribas Cardif Group, it must apply the delegation principles defined in the Group's Outsourcing operating procedure. These principles define the required level of approval for risk analyses performed on outsourcing projects or existing services, as well as the reporting requirements.

The criteria taken into account are:

- the criticality of the service,
- the operational risk associated with the delegated activity.

### B.8.c Monitoring system

A monitoring system is applied in the implementation phase of the service, notably as instructed by the Outsourcing Committee and allowing a review of the risks associated with the proposed outsourcing.

A campaign to assess the risks associated with important or critical activities already outsourced is carried out annually. A remediation plan is put in place if necessary depending on the results of this campaign.

At the end of 2022, the significant or critical activities operating on behalf of Cardif Lux Vie are the following

Activities delegated	Registered office	Intra- or Extra-Group
Accounting – valuation of investments of Collective Internal Funds	Luxembourg	Extra-Group
Provider of KIDs (PRIIPS) for investment supports	Luxembourg	Extra-Group
IT services (workstations, help desk)	Luxembourg	Extra-Group
IT services (IT infrastructure, network, access rights, servers, etc.)	Luxembourg	Intra-Group
Trading desk service (receipt and transmission of orders)	France	Intra-Group
Reporting for managed funds, macro-economic review, follow-up of orders	France	Intra-Group
Datacentre hosting (DRP site), telephony, Local Area Network, WiFi, CFT gateway (for exchanging reports with partners), FIRCOSOFT (AML screening of third party and SWIFT payments)	Luxembourg	Intra-Group
Internal Audit functions	Luxembourg	Intra-Group
Financial payment flows of rebates on UCITS securities	France	Extra-Group
Human resources and other support functions	Luxembourg	Intra-Group
Accounting and valuation for General Fund	France	Intra-Group
EMIR - Delegation to Custodian Banks for reporting to the central reference systems for the General Fund and Internal Funds	France Spain Switzerland Luxembourg Monaco	Intra- and Extra-Group
SFTR - Delegation to the Custodian Banks for reporting to the central reference systems for the General Fund	France	Intra- and Extra-Group

## **B.9 Adequacy of the system of governance**

The system of governance at Cardif Lux Vie is based on an organisational structure that is tailored to the nature, scale and complexity of the risks inherent in its business and on adequate supervision by the Board of Directors.

## **B.10 Other information**

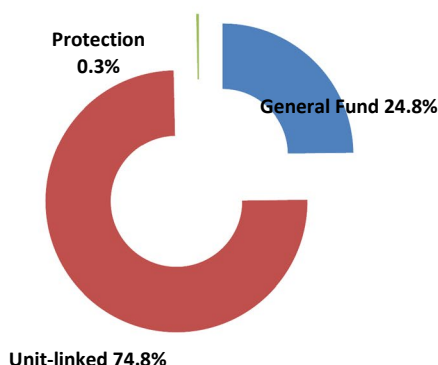
There is no other material information.

## C. Risk profile

As an insurer, Cardif Lux Vie accepts risks in accordance with its risk preferences and overall strategic framework. Risks are accepted according to the system of governance and related policies and are monitored by the Local Risk Committee and the Audit & Risks Committee.

Cardif Lux Vie's portfolio mainly consists of savings (invested in unit-linked products or General Funds) and protection insurance. The breakdown of assets under management (or provisions under Luxembourg GAAP) is shown below:

### Technical provisions Luxembourg GAAP - 31/12/2022



This entails the management of several risk categories, both in terms of underwriting and in terms of investment and day-to-day management of these policies.

Cardif Lux Vie's Solvency Capital Requirement (SCR) is calculated using the standard formula proposed by the European Insurance and Occupational Pensions Authority (EIOPA). It corresponds to the sum of the net BSCR (Basic Solvency Capital Requirement), the operational SCR and the tax adjustment. The BSCR is based on a bottom-up approach, i.e. its calculation is divided into risk modules, which in turn are divided into sub-modules. The capital requirements for each of the different risks are aggregated via a correlation matrix.

The information contained in this chapter covers the nature of the risks to which Cardif Lux Vie may be exposed, the valuation techniques applied, significant risk concentrations, the mitigation techniques used and the procedures for monitoring their effectiveness.

The risk classification applied by the BNP Paribas Cardif Group, of which Cardif Lux Vie forms part, changes in line with the regulatory requirements and methods. It is based on the following main categories:

- underwriting risk,
- market risk,
- counterparty risk,
- liquidity risk,
- operational risk,
- other risks.

## C.1 Underwriting risk

### C.1.a Definition

Underwriting risk is the risk of loss in value due to sudden and unexpected fluctuations in insurance payouts that may result from inadequate pricing or provisioning assumptions due to internal or external factors including sustainability risk. Depending on the type of activity, this risk is the result of statistical, macroeconomic or behavioural changes, as well as phenomena linked to public health or disasters.

### C.1.b Risk exposure

Cardif Lux Vie's underwriting SCR amounted to €284 million at 31 December 2022 (2021: €236 million). The increase in the SCR for Life Underwriting is mainly due to the increase in the SCR for large-scale redemptions as a result of the more favourable interest rate environment.

The underwriting SCR is composed of the Life and Health modules and breaks down as follows:

<i>In millions of euros, net amount, at</i>	<b>31 December 2022</b>	<b>31 December 2021</b>
SCR Life Underwriting	284	236
SCR Health Underwriting	-	-
<b>TOTAL UNDERWRITING RISK SCR</b>	<b>284</b>	<b>236</b>

The **Life module**, such as the biometric, surrender and management fee risks of savings and protection policies, is the aggregation of several risk sub-modules as defined by Solvency 2.

Cardif Lux Vie's main risk sub-modules are:

- The **expense risk** sub-module, which assesses the impact of a 10% increase in costs and a 1% rise in inflation.

Cardif Lux Vie's expense risk could result from a miscalculation, higher cost inflation than expected, lower management fees on assets under management due to a contraction in business, spending overruns, regulatory developments and company-wide changes.

- The **redemption risk** sub-module, which assesses the impact of a change in redemptions using the most sensitive of the following events:
  - o a permanent 50% rise or fall in redemption rates,
  - o a sizeable redemption of 40%.

Cardif Lux Vie is sensitive to the impact of sizeable redemptions mainly originating from unit-linked policies where the future profits largely depend on the duration of the liabilities in the portfolio.

- The biometric risk sub-modules (mortality risk, longevity risk and disability risk) assess the impact of a deterioration or improvement in the life expectancy of policyholders. Since the portfolio is mainly composed of savings policies, these biometric risks have a low impact on the Life Underwriting SCR.

### C.1.c Concentration

Given Cardif Lux Vie's Wealth Management business, the underwriting risk exhibits **a significant degree of concentration**. To limit this risk, Cardif Lux Vie has introduced governance for underwriting large policies.

In protection insurance, the reinsurance policy limits "peak" risks (high individual exposures).

### C.1.d Risk management and monitoring

#### Risk management and mitigation

The risk monitoring and management system for underwriting risk is based on a **system of governance and documented processes**. Risk underwriting is consistent with the specific delegation rules, involving several levels – both within Cardif Lux Vie and at the BNP Paribas Cardif Group level – depending on the assessment of the maximum acceptable loss, the estimated capital requirement under Solvency II, and the estimated return on the policies in question.

Past experience and market analysis are used to regularly update the databases used for risk pricing, taking into account various parameters (type of credit for borrower insurance, coverage, insured population, etc.). Premiums are calculated in view of the target profitability and return on equity set by the Board of Directors of Cardif Lux Vie.

This risk is managed via contractual clauses, where permitted by the regulatory and commercial framework. These include medical screening for high-value policies, or repricing clauses in the event of an increase in costs or an increase in claims, and limitations on the duration of coverage.

Reinsurance is an additional element of the underwriting risk management system. Its objective is to protect Cardif Lux Vie against three main risks, subject to appropriate pricing:

- “peak” risk, associated with exposure to an individual risk exceeding a predefined threshold, referred to as the “retention amount”,
- catastrophe risk, associated with risk exposure for a single rare event with a severe financial impact (concentration risk),
- new product risk, associated with insufficient pooling, lack of control over technical bases, or uncertainty regarding the data of policyholders.

In Savings, the underwriting risk is managed by monitoring and controlling the General Fund's inflows in order to limit the dilutive effects on the rate of return on assets during periods of persistently low interest rates or to enable the General Fund to benefit from the accretive effects of rising interest rates.

In addition, Cardif Lux Vie limits its exposure to the risk associated with the existence of a minimum guaranteed rate in its policies.

#### Risk monitoring

Periodic monitoring of the underwriting risks is carried out at several levels. Firstly, by means of control campaigns on compliance with delegations in risk taking and on the technical bases in force and finally by the quarterly analysis of technical results. Secondly, by means of a series of weekly indicators on activity (redemptions and net inflows). These indicators are monitored by the Executive Committee and the various control functions.

### C.1.e Stress tests and sensitivity analyses

At the time of pricing, the approval of a product requires a systematic analysis of unfavourable scenarios (stress tests) or very unfavourable scenarios (crash tests) even if their probability of occurrence is low. The stress and crash tests are performed over the same time horizon as the central scenario.

## C.2 Market risk

### C.2.a Definition

Market risk is the risk of loss associated with adverse movements in the financial markets. These adverse movements are mainly reflected in price variations (exchange rates, bonds, equities and commodities, derivatives, real estate, etc.) and are the result of fluctuations in interest rates, spreads, volatility or correlation.

### C.2.b Cardiff Lux Vie investments

The composition of the Cardiff Lux Vie investment portfolio and its sensitivity to market risk are as follows for each major category of insurance liability:

#### Investment portfolio covering the liabilities of the General Fund, protection business and own funds

The investment portfolio of the general assets (General Fund, protection business and own funds) is mainly composed of bonds (75%) and investment funds (19%), as shown below:

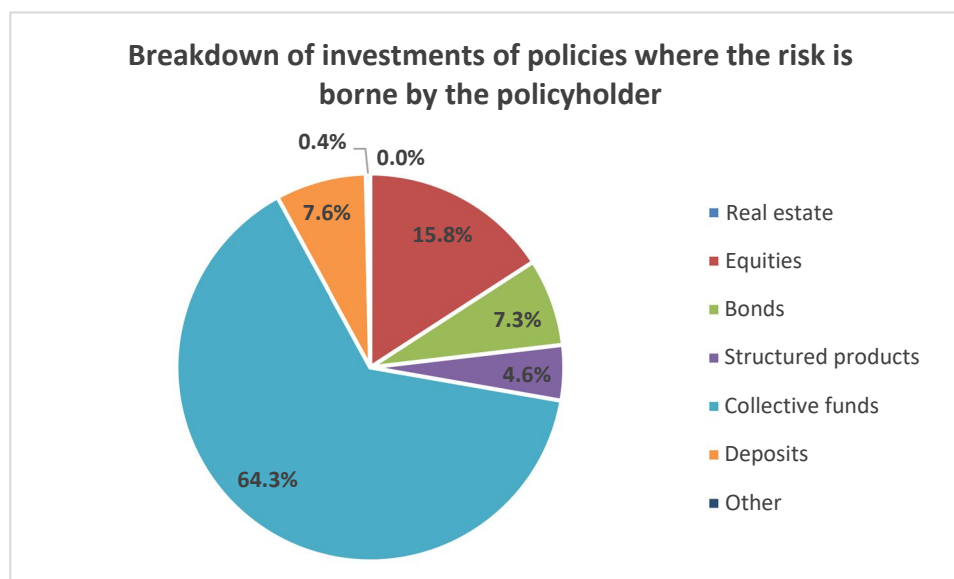
In millions of euros, at	31 December 2022		31 December 2021	
	Market value	%	Market value	%
Real estate	-	-	-	-
Equity holdings	166	2%	155	2%
Listed equities	273	3%	327	3%
Bonds	6,403	75%	8,002	79%
Government bonds	1,804	21%	2,517	25%
Corporate bonds	4,443	52%	5,329	53%
Structured bonds	156	2%	156	2%
Guaranteed securities	0	-	-	-
Collective funds	1,615	19%	1,602	16%
Equity funds	373	4%	635	6%
Bond funds	325	4%	372	4%
Money market funds	569	7%	287	3%
Asset allocation funds	0	-	-	-
Real estate funds	145	2%	174	2%
Hedge funds/Infrastructure/Private Equity	198	2%	128	1%
Other	5	0%	7	0%
Derivatives	107	1%	20	0%
Other investments	7	0%	7	0%
Deposits	3	0%	6	0%
<b>TOTAL GENERAL FUND INVESTMENTS</b>	<b>8,574</b>	<b>100%</b>	<b>10,119</b>	<b>100%</b>

For this general asset, the market risk is mainly borne by Cardiff Lux Vie, which guarantees the liability commitments for its policyholders. Through its prudent person policy, Cardiff Lux Vie invests in asset classes enabling it to at least meet its obligations towards policyholders.

The general asset investment portfolio is exposed to the following risks: interest rate risk, equity risk, credit risk, issuer concentration risk, exchange rate risk and real estate risk. These risk exposures are described below.

### Investment portfolio covering unit-linked liabilities

The investment portfolio representing unit-linked policies is mainly composed of collective investment funds (64%), as illustrated below:



For this portfolio of unit-linked policies, the prudent person policy also applies during the selection of investment assets by policyholders. Here, the market risk is mainly borne by policyholders; however, a fall in assets under management would have an impact on Cardif Lux Vie's revenue.

The unit-linked investment portfolio is exposed to the following risks: interest rate risk, equity risk, bond risk, foreign exchange risk and real estate risk. These risk exposures are described below.

### C.2.c Risk exposure

The market SCR for Cardif Lux Vie totalled €470 million at 31 December 2022 (2021: €579 million).

<i>In millions of euros, net amount, at</i>	<b>31 December 2022</b>	<b>31 December 2021</b>
Interest rate risk	44	43
Equity risk	230	314
Real estate risk	36	23
Credit spread risk	202	214
Concentration risk	18	12
Exchange rate risk	97	117
Diversification effect	-157	-143
<b>TOTAL MARKET SCR RISK</b>	<b>470</b>	<b>579</b>



The six risk sub-modules comprising the market SCR are:

- **the interest rate risk sub-module**, which seeks to quantify the capital requirement necessary to absorb the impact on the balance sheet of a rise or fall in the interest rate term structure. The capital requirement is equal to the maximum impact of a rise or fall in the interest rate term structure. For each maturity, upward or downward shocks are expressed in proportion to the interest rates.

The interest rate shocks applied to assets are largely absorbed by adjusting the liability discounting rate. As a result, the asset duration gap, shorter than for liabilities, generates most of the SCR of this sub-module. It originates from the prudence required when setting the asset investment horizon, given the option of surrendering liabilities at any time. It is essential therefore that any acceleration in liability cash flows can be met.

In addition, guaranteed minimum rate exposure is minor and only has a limited impact on the SCR of the interest rate risk sub-module.

The absorption capacity of liabilities with regard to other shocks (equities, real estate, credit spread) is solely derived from the adjustment of profit-sharing. It is therefore proportionally lower than in the case of interest rate shocks.

- **The equity risk sub-module** represents 37% of the market SCR before diversification at 31 December 2022 (2021: 43%). This sub-module is significant, taking into account the unit-linked investment portfolio which is mainly invested in investment funds and the shock level applied of 39% for equities listed in a European Economic Area or OECD member state and 49% for other equities.

To avoid pro-cyclical behaviour, this shock is corrected by a symmetrical adjustment mechanism or “dampener”: it attenuates equity shock when the markets are at their lowest, and increases it when the markets reach a peak, i.e. when a fall is highly probable. As of 31 December 2022, the dampener is -3.02% (2021: 6.88%), and the shocks applied were 35.98% or 45.98% depending on the type of share (2021: 45.88% and 55.88% respectively).

- **The real estate risk sub-module**, which measures the impact of a fall in real estate markets on asset value. It consists of an immediate 25% reduction in the market value of real estate assets. The capital charge is consistent with Cardif Lux Vie’s exposure.

- **The credit spread risk sub-module** represents 32% of the market SCR before diversification at 31 December 2022 (2021: 30%).

This sub-module is intended to quantify the capital requirement corresponding to the risk of widening credit spreads (actuarial difference between a bond rate and the equivalent risk-free government bond rate). The spread shock depends on the duration and rating of fixed income products. It only covers corporate bonds and bonds issued by non-European States, considering that bonds issued by European States are not subject to spread risk. Like interest rate risk, it varies according to the composition of the fixed income portfolio.

- **the currency risk sub-module**, which quantifies the capital cost of a 25% fall in foreign currencies against the euro. Cardif Lux Vie’s exposure is due to securities denominated in foreign currencies and held by the General Fund, and unit-linked investments.

- **the concentration risk sub-module**, which is covered in the next section.

### C.2.d Concentration

The SCR for concentration risk reflects the decrease in equity following an exposure beyond a threshold defined by the standard formula on one or more issuers.

The asset dispersion rules are laid down by the asset management government system. These rules are integrated into the General Fund management agreements and specify the dispersion ratios by issuer for each fixed income instrument and rating category.

In addition, the General Fund is specifically monitored through a statistical analysis of its assets.

### C.2.e Risk management and monitoring

#### Risk management and mitigation

Cardif Lux Vie has the management tools necessary to calibrate its strategic asset allocation and to measure its asset-liability adjustment risks.

The investment policy dictates the framework applicable to asset management. It defines the principles used to match the structure of the asset portfolios with obligations towards policyholders upon the sale of insurance policies, while maximising the expected return on investment compared with the risk limit set.

For each portfolio, the investment policy is governed by a management agreement which specifies the investment limits for each asset class.

The asset-liability review is used to project the expected cash flows for the assets and liabilities of the General Fund. They can be used to adjust the asset duration based on the profile of the different liabilities.

Exposure to market risk is also monitored through **specific and targeted studies**, such as the quarterly review of bond issuers, or the review of securities with an unrealised capital loss.

Furthermore, Cardif Lux Vie is exposed to exchange rate risk on its foreign currency investments. The foreign exchange position essentially consists of securities denominated in foreign currency financed by the purchase of the investment currency. The Cardif Lux Vie policy consists of hedging exposures to liquid currencies while maintaining a limited sensitivity of the solvency ratio to exchange rate movements.

#### Risk monitoring

Market risk is monitored by controlling compliance with the management agreements on the one hand and by the asset management committees on the other.

**Periodic monitoring** of market risks is also carried out quarterly by means of a report submitted by the Risk Management function to the Local Risk Committee.

The asset management committees are involved in monitoring market risk.

### C.2.f Stress tests and sensitivity analyses

Stress tests are regularly reviewed as part of the asset-liability review. These test the ability of Cardif Lux Vie to honour its commitments in adverse market situations, taking into account the impact of such situations on policyholder behaviour.

In addition, specific stress tests can be performed at the request of the regulators.

Finally, since the beginning of 2021, upward and downward sensitivity tests to market risks are performed after each quarterly Solvency 2 closing.

## C.3 Counterparty risk

### C.3.a Definition

Counterparty risk is the risk of loss due to the effects of a change in credit quality of issuers, counterparties or any other debtor to whom the Company is exposed. Among the debtors, the risks associated with financial instruments (including banks in which the Company holds deposits) and the risks associated with insurance receivables (collection of premiums, reinsurance balances, etc.) are divided into two categories: asset credit risk and liability credit risk.

### C.3.b Risk exposure

The counterparty SCR totalled €15 million at 31 December 2022 (2021: €13 million). Of this, 91% relates to default risk exposures arising from reinsurance operations and cash deposits with credit institutions.

<i>In millions of euros, at</i>	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>TOTAL COUNTERPARTY RISK SCR</b>	<b>15</b>	<b>13</b>

### C.3.c Concentration

The **exposure to reinsurers** at 31 December 2022 mainly concerns two reinsurers. These are the most significant reinsurance treaties. The **counterparty** risk on these treaties is reduced by a cash deposit guarantee for the share of obligations in euros. This guarantee is not recognised as collateral in accordance with the provisions established by Solvency II.

### C.3.d Risk management and mitigation

Counterparty risk on **reinsurers** is managed through careful counterparty selection, the negotiation of guarantees and regular monitoring of the main exposures.

## C.4 Liquidity risk

### C.4.a Definition

Liquidity risk is the risk of not being able to meet expected or unexpected future liquidity demands arising from insurance liabilities to policyholders, due to the inability to sell assets in an appropriate time frame for an acceptable amount without significant impact on market prices and/or to have alternative financing instruments available in an appropriate time frame.

### C.4.b Risk exposure

#### General Fund

The liquidity policy describes the rules for identifying, measuring, managing and controlling liquidity risk.

Liquidity risk exposure is reviewed at least annually. This is done firstly by monitoring the composition of the portfolios and secondly through studies carried out by the Actuarial & Risk Management Department on the projection of expected cash flows on the assets and liabilities of the Cardif Lux Vie General Fund.

As of 31 December 2022, assets considered to be liquid are at a level considered satisfactory. In addition, in 2022, Cardif Lux Vie experienced an increase in redemptions without any pressure on the liquidity of the General Fund.

#### Units of account

As of 31 December 2022, the exposure to alternative assets is below the warning thresholds and maximum limits set by the Board of Directors of Cardif Lux Vie. These are limits for acceptance of liquidity risk on unit-linked investments. By "alternative" assets, we mean complex or illiquid products such as hedge funds, structured products, private equity funds, real estate funds, derivatives and, historically and marginally, direct private equity lines.

### C.4.c Risk management and mitigation

Liquidity risk is managed through the approval of securities and the monitoring (in relation to the limits set) of the composition of the assets of the General Fund and the units of account, in particular the internal funds.

On the liability side, risk is managed through regular monitoring of redemptions and monitoring of the concentration of General Fund liabilities. The aim is to limit the concentration of liabilities on a small number of policyholders who may generate a liquidity risk in the case of large-scale redemptions.

Finally, for the General Fund, liquidity risk is managed on the basis of studies carried out at a frequency appropriate to the risk exposure.

### C.4.d Sensitivity

Tests are conducted as part of the monitoring of liquidity risk. These test the ability of Cardif Lux Vie to honour its commitments in adverse market situations, taking into account the impact of such situations on policyholder behaviour.

## C.5 Operational risk

### C.5.a Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, IT failures or external events, whether deliberate, accidental or natural. These external events include both man-made and natural events.

Internal events mainly involve personnel and computer systems. External events include flooding, fires, earthquakes and terrorist attacks. Credit or market events such as defaults or changes in value are not classified as operational risk.

Operational risk covers fraud, human resources risk, legal risk, compliance risk, tax risk and information systems risk. It is particularly impacted by cross-sectoral risk factors such as Environmental, Social and Governance (ESG) risk, conduct risk and model risk.

### C.5.b Risk exposure

The amount of SCR linked to operational risk totalled €51 million at 31 December 2022 (2021: €64 million).

<i>In millions of euros, at</i>	<b>31 December 2022</b>	<b>31 December 2021</b>
SCR linked to operational risk calculated on the basis of mathematical provisions	46	56
SCR linked to operational risk calculated on the basis of earned premiums	51	64
<b>TOTAL OPERATIONAL RISK SCR</b>	<b>51</b>	<b>64</b>

The decrease in the SCR related to operational risk between the two years is mainly explained by the decrease in the collection of funds from the General Fund in 2022.

### C.5.c Main risk management or mitigation techniques

Cardif Lux Vie relies on its general internal control and operational risk management system, which includes both permanent and periodic controls.

The governance of the internal control system of Cardif Lux Vie is carried out through the following committees:

- The Audit & Risks Committee, which meets at least four times a year. It is responsible for monitoring the effectiveness of the risk management and permanent control mechanisms.
- The Internal Control Committee, which meets at least twice a year. Its purpose is to assess the status of risks and the associated permanent control system and to take the necessary measures.

## C.6 Other material risks

There are no other material risks.

## C.7 Other information

There is no other specific information.

## D. Valuation for solvency purposes

Cardif Lux Vie prepares its balance sheet under Solvency II in accordance with Article 75 of the Solvency II Directive.

### D.1 Assets

The balance sheet assets of Cardif Lux Vie are composed as follows:

<i>In millions of euros, at 31 December</i>	<i>Reference</i>	<b>Solvency II balance sheet 2022</b>	<b>Financial statements 2022</b>	<b>Solvency II balance sheet 2021</b>	<b>Financial statements 2021</b>
Deferred acquisition costs		-	-	-	-
Other intangible assets	A	-	4	-	4
Deferred tax assets	B	-	-	-	-
Installations and equipment held for own use		1	1	2	2
Investments (excluding investments representing unit-linked liabilities)	C	8,574	9,059	10,119	9,143
Investments representing unit-linked liabilities	C	21,876	21,876	23,477	23,477
Loans and mortgages		-	-	-	-
Policy advances		0	0	0	0
Share of assignees and retrocessionaires in the Technical Provisions	D	7	7	6	6
Deposits with ceding undertakings		-	-	-	-
Receivables arising from insurance operations		2	2	17	17
Receivables arising from reinsurance operations		-	-	5	5
Other receivables (excluding insurance)	E	196	207	184	184
Cash and cash equivalents		209	209	270	270
Other assets		1	1	1	1
<b>ASSETS</b>		<b>30,866</b>	<b>31,366</b>	<b>34,081</b>	<b>33,109</b>

Letters A to E refer to the valuation methods described below. No specific comment is required for the other items as regards the valuation methods used to prepare the financial statements.

#### Reconciliation with the financial statements and asset valuation methods:

In accordance with Article 75a) of the Directive, assets are valued “at the amount for which they could be exchanged between knowledgeable willing parties in an arm’s length transaction”.

Investments representing unit-linked liabilities are valued at the market price in the financial statements according to the same valuation methods as those adopted for Solvency II.

<i>In millions of euros, at 31 December</i>	<i>Reference</i>	<b>2022 amounts</b>	<b>2021 amounts</b>
Recognition at fair value of goodwill and intangible assets	A	- 4	- 4
Tax effect on restatements	B	-	-
Recognition at fair value of financial assets	C	- 485	976
Valuation of the reinsurers' share in technical provisions	D	-	-
Recognition at fair value of other receivables	E	- 11	1
<b>TOTAL RESTATEMENTS</b>		<b>- 500</b>	<b>973</b>

#### A. Other intangible assets

Intangible assets are initially recognised at zero value. Providing they are identifiable and there is an active market for similar assets, they are subsequently measured at their market value.

#### B. Deferred tax assets

Deferred taxes are determined according to the method described in paragraph D.5 (Other information). Deferred tax assets are recognised for all deductible temporary differences and tax losses that can be carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and tax losses can be utilised.

#### C. Financial investments

Financial assets are classified in the balance sheet according to the Complementary Identification Codes (CIC) defined by EIOPA.

Financial investments are valued at the market price in order to determine their current value. The market price reflects the last known listed value for the period or the value at which an investment may be disposed of, estimated prudently and in good faith.

The market value of financial assets is determined either using prices obtained directly from market data, or prices resulting from valuation techniques calibrated to reflect the current market conditions.

- **Equities issued by holdings** are unlisted and valued according to the share of adjusted net equity (according to the adjusted equity method – AEM).
- **Equities** (other than from holdings<sup>1</sup>), **bonds, investment funds and other investments** are mainly valued using quoted prices in an active market, at the “Quoted Market Price (QMP)” for identical assets, or at the “Quoted Market Price for Similar Assets (QMPS)”, for similar assets. The characteristics of an active market include the existence of transactions that take place with sufficient frequency and volume to provide pricing information on an ongoing basis. In the absence of prices quoted in an active market, the Company uses valuation techniques (see paragraph D.4).

Investments representing **unit-linked liabilities** are primarily valued using prices quoted in an active market for identical assets (“Quoted Market Price (QMP)”). In the absence of prices quoted in an active market, the Company uses valuation techniques (see paragraph D.4).

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<sup>1</sup> i.e. “other than shares issued by companies which are holdings within the meaning of the Solvency II Directive”.

The distribution of investments by valuation method was as follows:

In millions of euros, at	31 December 2022				31 December 2021			
	Total	Quoted price (identical or similar assets)	Alternative valuation method	Adjusted equity method	Total	Quoted price (identical or similar assets)	Alternative valuation method	Adjusted equity method
Equity holdings	166	-	-	166	155	-	-	155
Listed equities	273	273	-	-	327	327	-	-
Sovereign bonds	1,804	1,804	-	-	2,517	2,517	-	-
Corporate bonds	4,443	4,443	-	-	5,329	5,329	-	-
Structured bonds	156	156	-	-	156	156	-	-
Investment funds	1,615	1,449	166	-	1,602	1,271	332	-
Derivatives	107	-	107	-	20	-	20	-
Deposits with credit institutions	3	3	-	-	6	6	-	-
Other investments	7	-	7	-	7	7	-	-
Investments (excluding investments representing unit-linked liabilities)	8,574	8,128	280	166	10,119	9,612	352	155
Investments representing unit-linked liabilities	21,876	19,014	2,862	-	23,477	20,500	2,977	-

#### D. Share of assignees and retrocessionaires in technical provisions

The valuation method of ceded technical provisions follows the same principles as the technical provisions described in paragraph D.2. At 31 December 2022, ceded technical provisions amounted to €7.0 million (2021: €5.9 million).

#### E. Other receivables

The receivable relating to advance taxes paid by Cardif Lux Vie for clients resident in Italy for tax purposes is valued at fair value by discounting recoverable financial flows expected from the Italian tax authorities at the risk-free rate plus the original issue spread on the valuation date.



## D.2 Technical provisions

### D.2.a Summary of technical provisions by line of business under Solvency II

In millions of euros, at	31 December 2022			31 December 2021		
	BEL - Best estimate of liabilities	Risk margin	Total	BEL - Best estimate of liabilities	Risk margin	Total
Health similar to non-life	-	-	-	-	-	-
Health similar to life	-	-	-	-	-	-
Health	-	-	-	-	-	-
Life (excluding health, index-linked and unit-linked)	6,801	65	6,867	9,200	46	9,246
Index-linked and unit-linked policies	21,607	104	21,711	23,184	137	23,321
Life (non-health)	28,408	169	28,577	32,384	183	32,567
<b>TOTAL TECHNICAL PROVISIONS</b>	<b>28,408</b>	<b>169</b>	<b>28,577</b>	<b>32,384</b>	<b>183</b>	<b>32,567</b>

The change in the Best Estimate of Liabilities (BEL) is explained by the decrease in liabilities in the financial statements.

### D.2.b Reconciliation with the financial statements

In millions of euros, at 31 December	2022 Solvency II balance sheet	2022 Financial statements	2021 Solvency II balance sheet	2021 Financial statements
Gross technical provision – Life (excluding health, unit-linked or index-linked)	6,867	7,365	9,246	8,395
Best estimate	6,801	-	9,200	-
Risk margin	65	-	46	-
Gross technical provision – UL or index-linked	21,711	21,944	23,321	23,477
Best estimate	21,607	-	23,184	-
Risk margin	104	-	137	-
<b>SUBTOTAL TECHNICAL PROVISIONS INCLUDING BEST ESTIMATE OF LIABILITIES</b>	<b>28,577</b>	<b>29,309</b>	<b>32,567</b>	<b>31,871</b>

The main reason for the difference between the accounting technical provisions and Solvency II provisions is because the calculations include the following items:

- unrealized capital gains or losses;
- future profit-sharing,
- risk margin.

### D.2.c Valuation principles for technical provisions

In accordance with Article 101 of the Law of 7 December 2015 on the insurance sector, developed by the CAA, and Article 75 b) of the Solvency II Directive, “the value of technical provisions shall correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking”.

The technical provisions are equal to the sum of the *best estimate of liabilities* (BEL) and *risk margin* (RM).

The BEL corresponds to the probable value of cash inflows and outflows of the portfolio at 31 December 2021, discounted with the risk-free interest rate term structure, minus the credit risk and plus the volatility adjustment.

The risk margin is calculated using “method 2” of the simplifications proposed in Guideline 61 of the Guidelines on the Valuation of Technical Provisions (EIOPA-BoS-14/166). This methodology is based on the projection of risk sub-modules in proportion to certain indicators known as “drivers” to calculate the future reference SCR.

#### **D.2.d Valuation methods for technical provisions – General**

##### **Projection models**

Cash flows are projected over a time horizon of 40 years using local deterministic and stochastic models. The projected cash flows are estimated using the best estimate of assumptions, particularly with regard to the rules on mortality, redemptions, disability claims, inflation, fees and claims expense. Where financial guarantees and options exist, including profit-sharing, stochastic calculations are made to assess these in accordance with the structure of risk-neutral economic scenarios.

#### **D.2.e Valuation methods for technical provisions– Savings and Protection**

##### **Contracts boundary**

The contracts boundary is defined as the date on which the insurer has the unilateral right to terminate the policy, to reject premiums or to amend the premiums in such a way as to reflect risk. An analysis is required of the general terms and conditions of policies, partner agreements and local regulations to define the boundary of each risk and generation of policies.

#### **D.2.f Level of uncertainty associated with the value of technical provisions**

The main factors of uncertainty identified for technical provisions originate from two sources: process risks and model risks.

##### **Process risks**

Process risks are mitigated through checks carried out at each stage of the Solvency II calculation process. The system of governance identifies specific checks regarding data quality, which have been implemented throughout the process. The BNP Paribas Cardif Group also carries out checks on the calculations of Cardif Lux Vie.

##### **Model risks**

The value of technical provisions is based on long-term cash flow projections and requires the formulation of assumptions and the use of models. This requires judgement to be exercised and the use of information available at the calculation date. The value of technical provisions therefore involves a degree of uncertainty.

#### **D.2.g Interest rate term structure**

Cardif Lux Vie uses the risk-free interest rate term structure published by EIOPA, to which Volatility Adjustment (VA) is added.

However, the Company has elected not to apply the following transitional measures:

- matching adjustment,
- transitional measure on interest rates,
- transitional deduction measure.

The Volatility Adjustment for the euro interest rate published by EIOPA and used for calculations at 31 December 2022 is a maximum of 0.19% (2021: 0.03%).

### D.3 Other liabilities

The valuation of other liabilities in the Cardif Lux Vie balance sheet is explained below:

<i>In millions of euros, at 31 December</i>	<i>Reference</i>	<b>2022 Solvency II balance sheet</b>	<b>2022 Financial statements</b>	<b>2021 Solvency II balance sheet</b>	<b>2021 Financial statements</b>
Provisions other than technical provisions	A	59	58	46	45
Liabilities for reinsurers' cash deposits		4	4	4	4
Deferred tax liabilities	B	40	-	55	-
Liabilities to credit institutions	C	518	518	32	32
Liabilities arising from insurance operations		200	200	255	255
Liabilities arising from reinsurance operations		2	2	4	4
Other liabilities (not linked to insurance operations)		326	326	97	97
Subordinated debt included in basic own funds	D	436	441	364	311
Other liabilities not mentioned above		2	2	0	0
<b>LIABILITIES</b>		<b>1,587</b>	<b>1,551</b>	<b>857</b>	<b>748</b>

Notes A to D refer to the valuation methods of other liabilities described below.

#### Reconciliation with the financial statements and valuation methods of other liabilities :

<i>In millions of euros, at 31 December</i>	<i>Reference</i>	<b>2022 amounts</b>	<b>2021 amounts</b>
Revaluation of employee benefit obligations	A	1	1
Tax effect on restatements	B	40	55
Revaluation of liabilities to credit institutions	C	-	0
Revaluation of subordinated debts	D	5	53
<b>TOTAL RESTATEMENTS</b>		<b>36</b>	<b>109</b>

In accordance with Article 75 of the Directive, other liabilities are valued "at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction".

#### A. Provisions other than technical provisions

These provisions mainly consist of provisions for income taxes, as well as provisions for other risks and charges related to litigation and provisions for employee benefit obligations.

The restatement between the local balance sheet and Solvency II amounts relates to the revaluation of provisions for employee benefit obligations. Employee benefit obligations consist of post-employment benefits (pensions and other retirement benefits) and other long-term benefits (long-service awards). These pension liabilities are valued based on the present value of the future benefits obligation, and reduced by the fair value of the plan assets.

#### B. Deferred tax liabilities

Deferred tax liabilities are tax liabilities. They are determined according to the method described in paragraph D.5 under "Other information".

#### C. Liabilities to credit institutions

This item is measured at fair value by discounting future financial flows at the risk-free rate plus the issuer spread on the issue date.

#### D. Subordinated debt

This item is measured at fair value by discounting future financial flows at the risk-free rate plus the issuer spread on the valuation date.

## D.4 Alternative valuation methods

In the absence of a price quoted in an active market, the Company relies on the information available, including the financial statements, custodian statements and other sources considered relevant in order to estimate the current value of the investments.

The valuation methods generally used are as follows:

- **Hedge funds (real estate funds, commodities, hedge funds, etc.)** are generally valued on the basis of the net asset values published by the registrars of the funds concerned.
- **Private equity funds** are usually valued on the basis of the net asset values published by the management company, if necessary adjusted for calls for funds/distributions made since the calculation date.
- Direct investments in equities, bonds, certificates, etc. issued by unlisted companies (**Pure Private Equity**) are usually valued on the basis of the information available, mainly taken from the financial statements or expert reports.
- **Structured products** are generally valued on the basis of the valuations provided by the structurer.
- **Deposits** (other than cash equivalents) are valued at their nominal value, which corresponds to their fair value.
- Negotiated OTC **derivatives** are usually valued on the basis of the valuations provided by banking counterparties.

## D.5 Other information

Deferred tax is calculated on the basis of temporary differences between the carrying amounts of assets and liabilities on the Solvency II balance sheet and their tax base.

Tax credits and tax losses that can be carried forward are recognised and valued in accordance with IFRS.

Deferred tax assets and liabilities are measured using the liability method at the tax rate assumed to apply in the period in which the asset will be realised or the liability settled, on the basis of the tax rate and tax regulations that have been or will be adopted prior to the balance sheet date. They are not discounted.

Deferred tax assets are recorded in the balance sheet if it can be demonstrated that future taxable profits will be available within a reasonable time in order to absorb them.

Deferred tax assets and deferred tax liabilities are offset against each other if, and only if:

- they relate to taxes levied by the same tax authority and on the same taxable entity,
- there is a legally enforceable right to set off current tax assets against current tax liabilities.

## E. Capital management

### E.1 Own funds

#### E.1.a Objectives and management policy of own funds to cover the SCR/MCR

Cardif Lux Vie's capital monitoring aims to ensure that the capital structure is optimized and sufficient to meet the local prudential requirements of the Triangle of Security and to guarantee sufficient financial resilience.

Cardif Lux Vie applies grandfathering measures relating to the classification of own funds, but has chosen target measures for the SCR calculation.

Cardif Lux Vie bases its **Capital Management Policy** on the following principles:

- Comply with regulatory requirements;
- Cover at least 100% of the SCR defined as part of the ORSA valuation (Pillar II);
- Optimise the structure of own funds by searching for the best balance between share capital, subordinated debt and other components of equity, in accordance with the limits and levels defined by the regulations;
- Capital adjustments may be initiated depending on the observed levels of solvency ratio and projections made during the ORSA;
- Take into account the coverage of insurance commitments (Triangle of Security).

#### E.1.b Significant events of the fiscal year

Significant events to note in 2022 comprise an equity increase of €210 million:

- capital increase of €80 million represented by 3,200,000 shares each with a par value of €25;
- issue of subordinated loans for a total amount of €130 million.

#### E.1.c Structure, amount and quality of own funds

**Available own funds** totalled €1139 million at 31 December 2022 (2021: €987 million) and consisted of the following elements:

<i>In millions of euros, at</i>	31 December 2022	31 December 2021
Share capital	399	319
Issue premium	-	2
Reconciliation reserve	304	301
Subordinated debt	436	364
<b>Total equity</b>	<b>1,139</b>	<b>987</b>

The reconciliation reserve of 304 million euros (2021: 301 million euros), eligible for classification as Tier 1, breaks down as follows:

<i>In millions of euros, at</i>	31 December 2022	31 December 2021
Balance sheet results and reserves	185	135
Restatements under Solvency II	119	166
<i>Impact on future profits net of taxes</i>	119	210
<i>Other restatements</i>	1	-
Expected distribution	-	30
<b>TOTAL RECONCILIATION RESERVE</b>	<b>304</b>	<b>301</b>

The impact on future profits net of taxes reflects the revaluation differences of assets and liabilities under Solvency II standards. Other restatements mainly reflect the revaluation of subordinated debt and the cancellation of intangible assets under Solvency 2.

**Own funds are classified into three tiers**, depending on their availability, their subordination level in covering obligations to policyholders, and their duration.

The composition of each tier is based on transitional measures and is as follows for 2022 and 2021:

<i>In millions of euros, at</i>	31 December 2022	Unrestricted tier 1 capital	Restricted tier 1 capital	Tier 2 capital	Tier 3 capital
Share capital	399	399			
Issue premium	-	-			
Reconciliation reserve	304	304			
Subordinated debt	436		80	310	46
<b>Total equity</b>	<b>1,139</b>	<b>703</b>	<b>80</b>	<b>310</b>	<b>46</b>

<i>In millions of euros, at</i>	31 December 2021	Unrestricted tier 1 capital	Restricted tier 1 capital	Tier 2 capital	Tier 3 capital
Share capital	319	319			
Issue premium	2	2			
Reconciliation reserve	301	301			
Subordinated debt	364		122	192	50
<b>Total equity</b>	<b>987</b>	<b>623</b>	<b>122</b>	<b>192</b>	<b>50</b>

#### E.1.d Fungibility and transferability of own funds

Not applicable.

**E.1.e Classification of own funds excluding transitional measures**

<i>In millions of euros, at</i>	<b>31 December 2022</b>	<i>Tier 1 capital</i>	<i>Tier 2 capital</i>	<i>Tier 3 capital</i>
Share capital	399	399		
Issue premium	-	-		
Reconciliation reserve	304	304		
Subordinated debt	357		310	46
<b>Total equity</b>	<b>1,060</b>	<b>703</b>	<b>310</b>	<b>46</b>

<i>In millions of euros, at</i>	<b>31 December 2021</b>	<i>Tier 1 capital</i>	<i>Tier 2 capital</i>	<i>Tier 3 capital</i>
Share capital	319	319		
Issue premium	2	2		
Reconciliation reserve	301	301		
Subordinated debt	242		192	50
<b>Total equity</b>	<b>865</b>	<b>623</b>	<b>192</b>	<b>50</b>

Subordinated debt classified as tier 1 under the transitional measures would no longer be eligible to cover the SCR and MCR under the target measures. These securities contain a clause allowing the contractual redemption of the subordinated debt at any time, subject to approval from the regulator, following regulatory changes or accounting events.

All these securities not eligible outside transitional measures totalled €80 million at 31 December 2022 (2021: €122 million).

## E.2 Regulatory capital requirements (SCR and MCR)

### E.2.a Amounts of SCR and MCR

At 31 December 2022, the SCR and MCR were, respectively, €623 million (2021: €690 million) and €280 million (2021: €310 million). The MCR was capped at 45% of the SCR.

In millions of euros, at	31 December 2022	30 December 2021
Linear minimum capital requirement	320	415
Solvency capital requirement (SCR)	623	690
Minimum capital requirement – floor	280	310
Minimum capital requirement – cap	156	172
Minimum capital requirement – combined	280	310
Absolute floor of the Minimum Capital Requirement	4	4
<b>MINIMUM CAPITAL REQUIREMENT (MCR)</b>	<b>280</b>	<b>310</b>

### E.2.b Information on the data used to calculate the MCR

The following data were used in the MCR calculation:

- the technical provisions described in paragraph D.2;
- the amounts of net premiums written for the fiscal year;
- the capital at risk.

### E.2.c Amount of SCR per risk module

The SCR at 31 December 2022 was €623 million (2021: €690 million). This is mainly due to the preponderance of the market SCR and the life underwriting SCR (see Section C on Risk Profile).

Deferred taxes reflect the share of future taxes on future profits from Solvency II adjustments. The loss-absorption capacity of technical provisions represents the revaluation adjustment by profit-sharing in stress scenarios.

In millions of euros, at	31 December 2022		31 December 2021	
	Net amount	Gross amount	Net amount	Gross amount
Market risk	470	940	579	1,286
Default risk	15	15	13	13
Life underwriting risk	284	746	236	236
Health underwriting risk	-	-	-	-
Non-life underwriting risk	-	-	-	-
Diversification	- 157	- 358	-146	-167
Risk linked to intangible assets	-	-	-	-
<b>BASIC SOLVENCY CAPITAL REQUIREMENT</b>	<b>611</b>	<b>1,344</b>	<b>681</b>	<b>1,367</b>
Operational risk	51	-	64	-
Absorption capacity of technical provisions	- 732	-	-686	-
Absorption capacity of deferred tax	- 40	-	-55	-
<b>SOLVENCY CAPITAL REQUIREMENT (SCR)</b>	<b>623</b>	<b>-</b>	<b>690</b>	<b>-</b>

The change by risk module is described in Section C on Risk Profile.



**E.2.d Coverage ratios**

The SCR and MCR coverage ratios were 176% and 299% respectively at 31 December 2022 (2021: 143% and 260%).

In millions of euros, at	31 December 2022					31 December 2021
	Total	Unrestricted tier 1 capital	Restricted tier 1 capital	Tier 2 capital	Tier 3 capital	Total
Own funds eligible for the solvency capital requirement	1,093	702	80	310	1	987
Own funds eligible for the minimum capital requirement	838	702	80	56	-	807
Solvency capital requirement (SCR)	623					690
Minimum capital requirement	280					310
Eligible own funds as a ratio of the solvency capital requirement	176%					143%
Eligible own funds as a ratio of the minimum capital requirement	299%					260%

The SCR coverage level is consistent with Cardif Lux Vie's capital management policy.

**E.2.e Information on simplified calculations**

No simplified calculation has been applied.

**E.2.f Use of undertaking-specific parameters (USP)**

Not applicable.

**E.3 Calculation option used to calculate the SCR (Article 304)**

The duration was not taken into account in the assessment of equity risk, in accordance with Article 304 of Directive 2009/138/EC.

**E.4 Differences between the standard formula and the internal model**

Not applicable.

**E.5 Amount of non-conformities with MCR and SCR**

Not applicable.

**E.6 Other information**

There is no other specific information.

## F. Acronyms

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AEM	Adjusted Equity Method
ALM	Asset and Liability Management
BEL	Best Estimate of Liabilities
BSCR	Basic Solvency Capital Requirement
CAA	Commissariat aux Assurances
CRO	Chief Risk Officer
EIOPA	European Insurance and Occupational Pensions Authority
GAAP	Generally Accepted Accounting Principles
MCR	Minimum Capital Requirement
OECD	Organisation for Economic Co-operation and Development
ORSA	Own Risk and Solvency Assessment
QMP	Quoted Market Price
QMPS	Quoted Market Price for Similar Assets
SCR	Solvency Capital Requirement
UC	Units of account
VA	Volatility Adjustment

## G. Appendix - Quantitative Reporting Templates

### S.02.01.02 – Balance sheet

		Value under Solvency II
		C0010
<b>Assets</b>		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension scheme surplus	R0050	0
Tangible assets held for own use	R0060	1,179,849
Investments (excluding assets representing unit-linked and indexed policies)	R0070	8,573,561,154
Real estate assets (excluding assets held for own use)	R0080	0
Holdings in related undertakings, including shareholdings	R0090	166,337,944
Equities	R0100	272,589,405
Listed equities	R0110	272,589,405
Non-listed equities	R0120	0
Bonds	R0130	6,403,174,057
Government bonds	R0140	1,804,129,934
Corporate bonds	R0150	4,442,846,825
Structured securities	R0160	156,197,298
Guaranteed securities	R0170	0
Undertakings for collective investment	R0180	1,614,970,599
Derivative products	R0190	106,559,095
Deposits (other than cash equivalents)	R0200	3,012,900
Other investments	R0210	6,917,155
Assets representing unit-linked and indexed policies	R0220	21,876,105,661
Loans and mortgages	R0230	76,901
Policy advances	R0240	76,901
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Recoverables from reinsurance policies	R0270	6,951,089
Non-life and health similar to non-life	R0280	0
Non-life excluding health	R0290	0
Health similar to non-life	R0300	0
Life and health similar to life, excluding health, unit-linked and indexed	R0310	6,951,089
Health similar to life	R0320	0
Life excluding health, unit-linked and indexed	R0330	6,951,089
Life, unit-linked and indexed	R0340	0
Deposits with ceding undertakings	R0350	0
Receivables arising from insurance operations and amounts receivable from intermediaries	R0360	1,891,624
Receivables arising from reinsurance operations	R0370	78,216
Other receivables (excluding insurance)	R0380	196,385,811
Own shares held (directly)	R0390	0
Own fund or called initial fund item(s) not yet paid	R0400	0
Cash and cash equivalents	R0410	208,961,261
Other assets not mentioned above	R0420	1,492,780
<b>Total assets</b>	<b>R0500</b>	<b>30,866,684,346</b>

		Value under Solvency II
		C0010
<b>Liabilities</b>		
Technical provisions non-life	R0510	0
Technical provisions non-life (excluding health)	R0520	0
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	0
Risk margin	R0550	0
Technical provisions health (similar to non-life)	R0560	0
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	0
Risk margin	R0590	0
Technical provisions life (excluding unit-linked and indexed)	R0600	6,866,686,757
Technical provisions health (similar to life)	R0610	0
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
Technical provisions life (excluding health, unit-linked and indexed)	R0650	6,866,686,757
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	6,801,191,636
Risk margin	R0680	65,495,121
Technical provisions unit-linked and indexed	R0690	21,710,595,101
Technical provisions calculated as a whole	R0700	0
Best estimate	R0710	21,606,661,882
Risk margin	R0720	103,933,220
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	59,122,759
Pension benefit obligations	R0760	199,648
Reinsurers' deposits	R0770	4,154,623
Deferred tax liabilities	R0780	39,599,740
Derivative products	R0790	0
Liabilities to credit institutions	R0800	517,555,965
Financial liabilities excluding those to credit institutions	R0810	0
Liabilities arising from insurance operations and amounts due to intermediaries	R0820	200,150,856
Liabilities arising from reinsurance operations	R0830	2,283,567
Other liabilities (excluding insurance)	R0840	325,735,581
Subordinated liabilities	R0850	436,115,180
Subordinated liabilities not included in Basic Own Funds	R0860	0
Subordinated liabilities included in Basic Own Funds	R0870	436,115,180
Other liabilities not mentioned above	R0880	2,075,202
<b>Total liabilities</b>	<b>R0900</b>	<b>30,164,274,982</b>
<b>Excess of assets over liabilities</b>	<b>R1000</b>	<b>702,409,364</b>

## S.05.01.02 – Premiums, claims and expenses by line of business

		Line of business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance policies and relating to health insurance obligations	Annuities stemming from non-life insurance policies and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
<b>Premiums written</b>										
Gross	R1410	0	871,427,266	1,796,531,407	20,708,017	0	0	0	0	2,688,666,691
Reinsurers' share	R1420	0	0	0	3,954,500	0	0	0	0	3,954,500
Net	R1500	0	871,427,266	1,796,531,407	16,753,517	0	0	0	0	2,684,712,190
<b>Premiums earned</b>										
Gross	R1510	0	871,427,266	1,796,531,407	20,708,017	0	0	0	0	2,688,666,691
Reinsurers' share	R1520	0	0	0	3,954,500	0	0	0	0	3,954,500
Net	R1600	0	871,427,266	1,796,531,407	16,753,517	0	0	0	0	2,684,712,190
<b>Claims incurred</b>										
Gross	R1610	0	1,769,799,557	1,238,159,847	36,093,640	0	0	0	0	3,044,053,044
Reinsurers' share	R1620	0	0	0	2,350,843	0	0	0	0	2,350,843
Net	R1700	0	1,769,799,557	1,238,159,847	33,742,797	0	0	0	0	3,041,702,201
<b>Change in other technical provisions</b>										
Gross	R1710	0	-988,762,811	-1,600,537,924	-49,935,777	0	0	0	0	-2,639,236,512
Reinsurers' share	R1720	0	0	0	1,300	0	0	0	0	1,300
Net	R1800	0	-988,762,811	-1,600,537,924	-49,937,077	0	0	0	0	-2,639,237,812
<b>Expenses incurred</b>	R1900	0	35,962,068	77,822,392	6,494,613	0	0	0	0	120,279,073
<b>Other expenses</b>	R2500									0
<b>Total expenses</b>	R2600									120,279,073

## S.05.02.01 – Premiums, claims and expenses by country

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations					Total for top 5 countries and home country
		C0220	BE C0230	FR C0230	GB C0230	IT C0230	MC C0230	C0280
<b>Premiums written</b>								
Gross	R1410	84,106,381	95,401,010	1,695,828,027	71,215,518	539,446,420	55,882,634	2,541,879,990
Reinsurers' share	R1420	3,954,500	0	0	0	0	0	3,954,500
Net	R1500	80,151,881	95,401,010	1,695,828,027	71,215,518	539,446,420	55,882,634	2,537,925,490
<b>Premiums earned</b>								
Gross	R1510	84,106,381	95,401,010	1,695,828,027	71,215,518	539,446,420	55,882,634	2,541,879,990
Reinsurers' share	R1520	3,954,500	0	0	0	0	0	3,954,500
Net	R1600	80,151,881	95,401,010	1,695,828,027	71,215,518	539,446,420	55,882,634	2,537,925,490
<b>Claims incurred</b>								
Gross	R1610	176,152,011	555,465,327	746,090,119	75,383,725	1,080,606,691	182,702,622	2,816,400,495
Reinsurers' share	R1620	2,350,843	0	0	0	0	0	2,350,843
Net	R1700	173,801,167	555,465,327	746,090,119	75,383,725	1,080,606,691	182,702,622	2,814,049,651
<b>Change in other technical provisions</b>								
Gross	R1710	-126,253,436	-767,992,935	-243,524,977	-87,772,247	-926,375,385	-151,612,958	-2,303,531,939
Reinsurers' share	R1720	1,300	0	0	0	0	0	1,300
Net	R1800	-126,254,736	-767,992,935	-243,524,977	-87,772,247	-926,375,385	-151,612,958	-2,303,533,239
<b>Expenses incurred</b>	R1900	16,282,676	12,643,586	60,567,332	3,442,104	14,276,755	1,761,860	108,974,313
<b>Other expenses</b>	R2500							0
<b>Total expenses</b>	R2600							108,974,313

## S.12.01.02 – Life technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance				Other life insurance		Total (Life other than health insurance, incl. Unit-Linked)
				Policies without options and guarantees	Policies with options and guarantees		Policies without options and guarantees	Policies with options and guarantees	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0150
Technical provisions calculated as a whole	R0010	0	0			0			0
Total recoverables from reinsurance/securitisation vehicles and finite reinsurance, after adjustment for expected losses due to counterparty default associated with technical provisions calculated as a whole	R0020	0	0			0			0
Technical provisions calculated as a sum of best estimate and risk margin									
Best estimate									
Gross best estimate	R0030	6,685,973,935		21,606,661,882	0		115,217,701	0	28,407,853,518
Total recoverables from reinsurance/securitisation vehicles and finite reinsurance, after adjustment for expected losses due to counterparty default	R0080	0		0	0		6,951,089	0	6,951,089
Best estimate minus recoverables from reinsurance/securitisation vehicles and finite reinsurance	R0090	6,685,973,935		21,606,661,882	0		108,266,612	0	28,400,902,428
Risk margin	R0100	54,848,896	103,933,220			10,646,225			169,428,341
Amount of the transitional deduction on technical provisions									
Technical provisions calculated as a whole	R0110	0	0			0			0
Best estimate	R0120	0		0	0		0	0	
Risk margin	R0130	0	0			0			
Technical provisions – total	R0200	6,740,822,830	21,710,595,101			125,863,926			28,577,281,858

## S.22.01.01 – Impact of long-term guarantees and transitional measures

		Amount with long-term guarantees and transitional measures	Impact of transitional measures on technical provisions	Impact of transitional measures on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	28,577,281,858	0	0	27,413,729	0
Basic own funds	R0020	1,138,524,544	0	0	-54,291,507	0
Excess of assets over liabilities	R0030	702,409,364	0	0	-20,576,745	0
Restricted own funds due to ring fencing and matching adjustment portfolio	R0040	0	0	0	0	0
Eligible own funds to meet SCR	R0050	1,093,452,579	0	0	-9,219,542	0
Tier 1	R0060	782,017,633	0	0	-20,576,745	0
Tier 2	R0070	310,370,345	0	0	0	0
Tier 3	R0080	1,064,601	0	0	11,357,203	0
Solvency capital requirement	R0090	622,869,892	0	0	22,714,407	0
Eligible own funds to meet MCR	R0100	838,075,923	0	0	-18,532,449	0
Minimum capital requirement	R0110	280,291,451	0	0	10,221,483	0



## S.23.01.01 – Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
<b>Basic own funds before deduction for participations in other financial sectors, as provided for in Article 68 of Delegated Regulation 2015/35</b>						
Ordinary share capital (gross of own shares)	R0010	398,704,950	398,704,950		0	
Share premium account related to ordinary share capital	R0030	1	1		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	303,704,414	303,704,414			
Subordinated liabilities	R0140	436,115,180		79,608,269	310,370,345	46,136,567
Amount equal to the value of net deferred tax assets	R0160	0				0
Other items approved by supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
<b>Deductions</b>						
Deductions for participations in other financial undertakings	R0230	0	0	0	0	0
<b>Total basic own funds after deductions</b>	<b>R0290</b>	<b>1,138,524,544</b>	<b>702,409,364</b>	<b>79,608,269</b>	<b>310,370,345</b>	<b>46,136,567</b>
<b>Ancillary own funds</b>						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
Legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under Article 96(3) of Directive 2009/138/EC	R0360	0			0	
Supplementary members calls other than under Article 96(3) of Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
<b>Total ancillary own funds</b>	<b>R0400</b>	<b>0</b>			<b>0</b>	<b>0</b>
<b>Available and eligible own funds</b>						
Total available own funds to meet the SCR	R0500	1,138,524,544	702,409,364	79,608,269	310,370,345	46,136,567
Total available own funds to meet the MCR	R0510	1,092,387,978	702,409,364	79,608,269	310,370,345	
Total eligible own funds to meet the SCR	R0540	1,093,452,579	702,409,364	79,608,269	310,370,345	1,064,601
Total eligible own funds to meet the MCR	R0550	838,075,923	702,409,364	79,608,269	56,058,290	
<b>Solvency capital requirement</b>	<b>R0580</b>	<b>622,869,892</b>				
<b>Minimum capital requirement</b>	<b>R0600</b>	<b>280,291,451</b>				
<b>Ratio of eligible own funds to SCR</b>	<b>R0620</b>	<b>176%</b>				
<b>Ratio of eligible own funds to MCR</b>	<b>R0640</b>	<b>299%</b>				

		C0060
<b>Reconciliation reserve</b>		
Excess of assets over liabilities	R0700	702,409,364
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Other basic own-fund items	R0730	398,704,951
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
<b>Reconciliation reserve</b>	<b>R0760</b>	<b>303,704,414</b>
<b>Expected profits</b>		
Expected profits included in future premiums (EPIFP) – Life business	R0770	13,673,292
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	0
<b>Total EPIFP</b>	<b>R0790</b>	<b>13,673,292</b>

## S.25.01.01 - Solvency capital requirement

		Net solvency capital requirement	Gross solvency capital requirement	Allocation of adjustments due to matching adjustment portfolios and ring fenced funds
		C0030	C0040	C0050
Market risk	R0010	469,575,027	940,464,401	
Counterparty default risk	R0020	15,125,087	15,125,087	
Life underwriting risk	R0030	283,943,829	746,408,437	
Health underwriting risk	R0040	0	0	
Non-life underwriting risk	R0050	0	0	
Diversification	R0060	-157,318,697	-358,282,946	
Intangible asset risk	R0070	0	0	
<b>Basic solvency capital requirement</b>	<b>R0100</b>	<b>611,325,246</b>	<b>1,343,714,979</b>	

		Value
		C0100
Adjustment due to the aggregation of the nSCR of matching adjustment portfolios/ring fenced funds	R0120	0
Operational risk	R0130	51,144,386
Loss-absorbing capacity of technical provisions	R0140	-732,389,732
Loss-absorbing capacity of deferred taxes	R0150	-39,599,740
Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	R0160	0
<b>Solvency capital requirement, excluding capital add-on</b>	<b>R0200</b>	<b>622,869,892</b>
Capital add-on requirements already defined	R0210	0
<b>Solvency capital requirement</b>	<b>R0220</b>	<b>622,869,892</b>

## S.28.01.01 – Minimum capital requirement (MCR)

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expenses insurance and related proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Medical expenses and proportional reinsurance	R0080	0	0
General liability insurance and proportional reinsurance	R0090	0	0
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	0
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

Linear formula component for life insurance and reinsurance obligations		C0040
MCR <sub>i</sub> result	R0200	319,593,278

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	5,757,497,031	
Obligations with profit participation – future discretionary benefits	R0220	928,827,016	
Index-linked and unit-linked insurance obligations	R0230	21,606,661,882	
Other life (re)insurance and health (re)insurance obligations	R0240	108,266,612	
Total capital at risk for all life (re)insurance obligations	R0250		1,920,943,790

Overall MCR calculation		C0070
Linear MCR	R0300	319,593,278
Solvency capital requirement	R0310	622,869,892
MCR cap	R0320	280,291,451
MCR floor	R0330	155,717,473
Combined MCR	R0340	280,291,451
Absolute floor of the MCR	R0350	3,700,000
Minimum capital requirement	R0400	280,291,451